

Rating Rationale

K.K.P. Weaving and Processing Mills Pvt Ltd

12 Oct 2018

Brickwork Ratings reaffirms 'BBB-/ A3' for the bank loan facilities of Rs 20.13 Crs of K.K.P. Weaving and Processing Mills Pvt Ltd (or the 'Company')

Particulars:

Facilities#	Amount (Rs Crs)	Amount (Rs Crs)	Tenure	Rating	
	Previous	Present		Previous (07-Jul-2017)	Present
Fund Based: Cash Credit Term Loans O/S	16.45 2.94	16.45 0.62	Long term	BWR BBB- [Pronounced BWR Triple B Minus] (Outlook: Stable)	BWR BBB- [Pronounced BWR Triple B Minus] (Outlook: Stable) Reaffirmed
Non Fund based: Letter of Credit Bank Guarantee	3.06 0.56	3.06 -	Short term	BWR A3 [Pronounced BWR A Three]	BWR A3 [Pronounced BWR A Three] Reaffirmed
Total	23.01	20.13	Rupees Twenty Crores and Thirteen Lakhs Only		

#Annexure I shows details of bank loan facilities

¹For definitions of the rating symbol please visit our website www.brickworkratings.com

Ratings Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY17, Management certified FY18 Provisionals, publicly available information and information/ clarifications provided by the Company's management.

The reaffirmation of ratings takes into consideration the operational track record & synergies in business operations of the Namakkal based K.K.P. Group, experienced management, healthy order book, reputed customers & supplier's base and satisfactory financial risk profile of the Company marked by moderate net worth and adequate liquidity position & debt protection metrics. The ratings, however, continue to be

constrained by the susceptibility to volatility in raw material prices in an intensely competitive textile industry and high working capital requirements of the business.

Going forward, the ability of the Company to improve the scale of operations and profitability, manage the volatility in cotton prices and working capital cycle efficiently and overall improvement in credit profile of the Company would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes **K.K.P. Weaving and Processing Mills Pvt Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Key rating drivers

Established track record of operations- **K.K.P. Weaving and Processing Mills Pvt Ltd** is a part of Namakkal- based K.K.P. group, which is engaged in the manufacturing of cotton yarn, grey fabric, woven & knitted fabric etc. The Group is well reputed and has been in existence for around 25 years now. The group is vertically integrated, with facilities across spinning, knitting, printing, stitching, and embroidery, and enjoys operating efficiency owing to its integrated operations. Also, it has end-to-end facilities, from conversion of cotton to ready-made knitwear.

Experienced management- The Board of Directors are well qualified and experienced. All the Directors have an experience of more than 25 years in the textiles industry.

Healthy order book and relationships with reputed clientele- The Company always has running Contracts with reputed customers in domestic markets. The group has a well-established supplier base and clientele for cotton and yarn across India. The Company has a domestic order book of ~ Rs 18.00 Crs, for execution in Oct- Nov 2018.

Susceptibility to volatility in raw material prices and intense competition in the textile industry- Any volatility in availability and prices of cotton in a competitive market will significantly affect the Company's operating margin. Thus, the Company will remain susceptible to volatility in raw material prices and intense industry competition over the medium term.

High working capital requirements- The liquidity of the Company is partly constrained by the large working capital requirement, as reflected in high inventory holding requirement and high receivables days. The working capital cycle was stretched at 217 days in FY18 mainly due to high receivable days and very high inventory days. The receivables stood at Rs 27.47 Crs as on March 31 2018 (Provisional). The receivables were stretched during FY18 mainly due to GST transitioning issues. Inventories stood at Rs 15.70 Crs as on March 31 2018 (Provisional). Higher inventories are due to the seasonal nature of the



textile business, where the raw material procurement is done in the peak season and is stocked as inventories.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

Incorporated in Oct 1983 at Namakkal, Tamil Nadu, **K.K.P. Weaving and Processing Mills Private Limited** is a manufacturer and supplier of cotton yarn and yarn fabric. The Company's plant is located at Namakkal and is operating at 100% capacity. The manufacturing plant has a total installed capacity of 141 Looms and 37008 Spindles. The Company is also focused on diversification by manufacturing Viscose yarn, Modal yarn, Micro Modal yarn, Tencel Yarn and blended yarn which is a mixture of cotton & Modal. The sale of Fabric contributed 85% to total revenues in FY18 followed by sale of cotton Yarn (15%).

Based in Namakkal (Tamil Nadu), the K.K.P. group was set up by Mr. K Periyasamy, father of Mr. P Nallathambi, who is the present Chairman. The Group presently has six operating companies, all engaged in the activity of spinning and textiles. All these companies have common management, complement one other thereby improving efficiency of operations and also have a centralised system for procurement of raw materials and marketing arrangements, which has resulted in corporate synergy of business operations.

Mr. P. Nallathambi, Mr. N. Sathesh Kumar and Mr. N. Subhash Kumar and Mr. N. Bakkialakshmi are the other directors. All the Directors are well qualified and have extensive experience in textile industry.

Financial Performance

Total operating income improved to Rs 85.28 Crs in FY17 from Rs 76.55 Crs in FY16 driven by higher sales realization. PAT also marginally improved to Rs 0.47 Crs in FY17 from Rs 0.35 Crs in FY16 mainly due to higher sales. Tangible net worth stood at Rs 8.53 Crs as on March 31 2017. Total debt stood at Rs 29.49 Crs as on March 31 2017. Total debt/ Tangible net worth stood at 3.46 times as on March 31 2017. ISCR and DSCR were adequate at 2.09 times and 1.23 times respectively for FY17. Current ratio (1.22 times) was also satisfactory in FY17.

On a provisional basis, the Company has posted total operating income and PAT of Rs 58.39 Crs and Rs 0.34 Crs respectively for FY18. Total debt stood at Rs 35.31 Crs as on March 31 2018 (Provisional). Long term borrowings of Rs 17.60 Crs in FY18 comprised of Car loans from Banks of Rs 0.11 Crs and interest free unsecured loans from directors of Rs 17.48 Crs. Considering 50% of unsecured loans from

promoters as quasi equity, adjusted net worth stood at Rs 29.10 Crs as on March 31, 2018. Adjusted Total debt/ Tangible net worth was comfortable at 0.61 times as on March 31, 2018, considering the unsecured loans from promoters as quasi equity. The key financial indicators are summarized in Annexure II.

Status of non-cooperation with other CRA: Not applicable.

Any other information: CRISIL Ratings vide their rating rationale dated 27th Mar 2018 has migrated the rating on bank loan facilities of KKP Weaving and Processing Mills Pvt Ltd to 'CRISIL BBB-/Stable/CRISIL A3 Issuer Not Cooperating and has withdrawn its ratings on the bank facilities of KKP Weaving and Processing Mills Ltd on the request of the company and receipt of a no objection/ due certificate from its bank.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (2018)			Rating History		
		Tenure	Amount (Rs Crs)	Rating	07-Jul-2017 [^]	2016	2015
1.	Fund based Limits	Long term	17.07	BWR BBB -[Pronounced BWR Triple B Minus] Reaffirmed	BWR BBB- (Stable) Assigned	-	-
2.	Non Fund based Limits	Short term	3.06	BWR A3 [Pronounced BWR A Three] Reaffirmed	BWR A3 Assigned	-	-
	Total		20.13	Rupees Twenty Crores and Thirteen Lakhs Only			

[^]Amount rated: Rs 23.01 Crs

Hyperlink/Reference to applicable Rating Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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K.K.P. Weaving and Processing Mills Pvt Ltd

Annexure I: Details of the bank facilities rated

Facilities	Bank Name	Sanctioned Limits (Rs Crs)
Fund based:	Tamilnad Mercantile Bank Ltd, Namakkal	
Cash Credit		16.45
Term Loans O/S as on 30-Sep-2018		0.62
Non Fund based:		
Letter of Credit		3.06
Total rated limits		20.13

K.K.P. Weaving and Processing Mills Pvt Ltd

Annexure II
Key Financial Parameters

Particulars	31/Mar/2016	31/Mar/2017
Result Type	Audited	Audited
Total Operating Income (Rs Crs)	76.55	85.28
EBITDA (Rs Crs)	7.11	6.29
PAT (Rs Crs)	0.35	0.47
Tangible Net Worth (Rs Crs)	10.79	8.53
Total Debt/TNW (Times)	2.52	3.46
Current ratio (Times)	1.15	1.22

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.



Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.