



Press Release

KKP Weaving and Processing Mills Pvt. Ltd.

May 30, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	50.94	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	3.06	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	54.00 (Rupees Fifty-four crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of KKP Weaving and Processing Mills Pvt. Ltd. derive strength from established and long track record, experienced management, long term relationship with customers and suppliers, improved scale of operations in FY22 and satisfactory financial risk profile. The ratings strengths are, however, constrained by working capital intensive nature of operations, susceptibility of profitability to raw material price volatility and intense competition prevalent in the industry.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and profitability margins on a sustained basis
- Sustained improvement in working capital cycle improving cash flows and liquidity of the company.
- Improvement in gearing to below unity on a sustained basis

Downward Factors

- More than expected moderation in scale of operations thereby leading to deterioration in profitability.
- Deterioration of overall gearing to over 3x and /or deterioration in interest coverage to below 2x
- Moderation in liquidity position with deterioration in operating cycle



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List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Established and long track record

KKP Group comprising of KKP Spinning Mills Pvt. Ltd., KKP Fine Linen Pvt. Ltd., KKP Hi Tech Weaving India Pvt. Ltd., KKP Garments Pvt. Ltd. And KKP Weaving and Processing Mills Pvt. Ltd., (the Group) based in Namakkal, Tamil Nadu is engaged in the manufacturing of cotton yarn, grey fabric, weaving fabric, made ups etc. The Group has an established presence and long track record of around three decades. The Group is vertically integrated with facilities across spinning, knitting, printing, stitching, and embroidery. It also exports high-quality bed linen, table linen, and bedspread items. All the Group Companies have common management and complement each other's operations in terms of procurement of raw materials, marketing etc. The Group benefits from the timely financial and operational support provided to all the companies in the group.

Experienced management

The promoter, Mr. P. Nallathambi, has an experience of 30 years in the textiles industry. Mr. N. Sathesh Kumar, a B. Tech (Textile Technology) and MBA (UK) in Marketing has been in the textiles industry for a decade and looks after sales promotion of the entire group. Mr. N. Subash Kumar, a B. Tech (Textile Technology) has also been in the textile field for the past eight years and is presently looking after the Weaving Division. They are ably supported by a team of qualified professionals.

Long term relationships with customers and suppliers

The group has well diversified reputable clients in both the domestic and international markets and has a strong base of suppliers. Most of the clients have been involved with the group for more than 6 years, and most of the group's export customers are headquartered in the US, UK, France, and Canada. The company sources its domestic raw material needs majorly from Coimbatore and Erode, among other places, through group enterprises and through its varied supplier base. The group benefits from the promoters' established presence and long-standing relationships with various partners across the value chain.

Improved scale of operations in FY22



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In FY22 the total operating income of the group improved substantially to Rs. 1085.98 crore from Rs. 704.92 crore in FY21. The group has achieved revenues of Rs. 809.04 crores for 9 months ended December 31, 2022. The company's EBITDA margins are moderate at 5.44% in FY22. For 9 months ended December 31, 2022, on a provisional basis, EBITDA margin improved to 6.82%.

Satisfactory financial risk profile

The financial risk profile of the company remained satisfactory marked by its healthy net worth base and moderate capital structure with satisfactory debt protection metrics. The company has a net worth base of Rs.139.71 crore as on March 31,2022. Further, considering the subordinated unsecured loans from directors amounting to Rs.68.28 crore as quasi equity the adjusted tangible net worth stood at Rs.207.99 crore as on March 31,2022. The overall gearing ratio including quasi equity stood at 1.49x as on March 31,2022 and is expected to be around 1.39x as on March 31, 2023. Total indebtedness of the company marked by TOL/ATNW remained satisfactory at 1.77x as on March 31,2022 and is expected to be around 1.62x as on March 31, 2023. The debt protection metrics remained comfortable over the past three fiscals. The interest coverage ratio stood at 2.42x in FY22 and is expected to be around 2.71x as on March 31,2023 respectively. Total debt to EBITDA stood moderate at 5.24 times as on March 31, 2022, and is expected to be at 4.88 times as on March 31, 2023. However, total debt to GCA was high at 9.58 years as on March 31,2022 and is expected to improve to 7.89 years as on March 31, 2023.

B. Key Rating Weaknesses

Working capital intensive nature of operations

KKP's operations are working capital intensive as the raw material availability is seasonal. During this period the company has to procure raw material required for the entire year. i.e., till next season. The company has large working capital requirements which are reflected in an elongated conversion cycle of 121 days in FY22 (FY21:175 days). The average fund based working capital utilization stood high at ~85-90% for last 12 months ended February 2023.

Susceptibility of profitability to raw material price volatility

Like other textile businesses, profitability of KKP Group is subject to fluctuations in the cost of cotton yarn, the primary raw material. The cotton yarn industry's profitability margins are highly



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correlated with fluctuations in raw cotton prices. The company does not have any long-term contracts with suppliers with regards to either quantity or price. However, it has several years of relationships. The cotton yarn industry is fragmented and there is significant competition among the players in the industry due to which their bargaining power is limited. This restricts the players from fully passing on the input cost increases to customers or retaining any benefits of lower input costs. As a result, the profitability margins of the company are susceptible to the volatility in raw cotton prices. The company's operating profit margins declined to 5.44% in FY22 as compared to 7.87% respectively in FY21. However, the company has reported EBITDA margins of 6.82% for 9MFY23, on a provisional basis.

Intense competition prevalent in the industry

The textile industry segment is characterized by high levels of fragmentation and low entry barriers across the value chain. The company faces stiff competition in the domestic market and from other upcoming players because of lower production costs, ease-of-doing-business, and availability of cheap labor.

Analytical Approach: Consolidated

Applicable Criteria:

[Policy of default recognition](#)

[Criteria of assigning rating outlook](#)

[Rating methodology for Manufacturing companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Consolidation of Companies](#)

Liquidity: Adequate

The liquidity position of the company is adequate marked by the sufficient projected gross cash accruals in the range of Rs. 42.67 crores to Rs 49.83 crores during FY23-25 as against debt repayment obligations in the range of Rs.24.74 crores to Rs.28.65 crores in the same



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period. Average working capital utilization for 12 months ended February 2023 stood high at around 85% - 90% on account of working capital nature of operations. The surplus cash accruals provide a buffer to the working capital requirements. The current ratio is expected to be around 1.63 times as on March 31, 2023. The company reported cash and cash equivalents at 10.35 crores as of March 2023.

About the company

KKP Group was started in 1984 in Namakkal, Tamil Nadu by Mr. K Periyasamy, father of Mr. P Nallathambi, who is the present chairman of the group. The group consists of five operating companies namely KKP Spinning Mills Pvt Ltd, KKP Fine Linen Pvt Ltd, KKP Hi Tech Weaving India Pvt Ltd, KKP Weaving and Processing Mills Pvt Ltd and KKP Garments Pvt Ltd. The group is vertically integrated, with facilities across spinning, knitting, printing, stitching, embroidery. The promoters look after the day-to-day affairs of the company.

KKP Weaving and processing mills Ltd was incorporated in October 1983 and is a manufacturer and supplier of yarn and fabric. The company is engaged in weaving activity and also generates captive power through own windmills with captive capacity of 1.20MW. The company has 100 air-jet looms with a capacity utilisation of approximately 95%. The company is in the process of adding 60 looms; as on date 42 looms have already been added. The company derives all its revenue from the domestic market.



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Financials (Consolidated):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	704.92	1085.98
EBITDA	55.50	59.10
PAT	12.98	16.13
Total Debt	283.73	309.57
Tangible Net worth	189.69	207.99
Ratios		
EBITDA Margin (%)	7.87%	5.44%
PAT Margin (%)	1.84%	1.48%
Overall Gearing Ratio (x)	1.50x	1.49x

*Classification as per Infomerics' standards

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	93.40	113.05
EBITDA	5.28	5.62
PAT	0.84	1.97
Total Debt	23.63	36.05
Tangible Net worth	31.78	34.53
Ratios		
EBITDA Margin (%)	5.65%	4.97%
PAT Margin (%)	0.90%	1.73%
Overall Gearing Ratio (x)	0.74x	1.04x

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The ratings of KKP Weaving and Processing Mills Pvt Ltd have been classified under Issuer Not Cooperating category by Brickwork Ratings as per Press Release dated March 20, 2023, due to unavailability of information.

Any other information: Nil

Rating History for last three years:



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	25.94	IVR BBB/Stable	-	-	-
2.	Cash Credit	Long Term	25.00	IVR BBB/Stable	-	-	-
3.	Letter of Credit	Long Term	3.06	IVR A3+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust, and credible rating has gained the confidence of Investors and Banks.

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recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy, or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long term fund based facility - Term Loan 1	-	-	August, 2029	9.64	IVR BBB/ Stable
Long term fund based facility - Term Loan 2	-	-	August, 2029	3.34	IVR BBB/ Stable
Long term fund based facility - Term Loan 3	-	-	August, 2029	1.61	IVR BBB/ Stable
Long term fund based facility - Term Loan 4	-	-	August, 2029	3.64	IVR BBB/ Stable
Long term fund based facility - GECL	-	-	August, 2024	2.07	IVR BBB/ Stable
Long term fund based facility - GECL Extension	-	-	February, 2027	2.05	IVR BBB/ Stable
Proposed Long term fund based facility - Term Loan	-	-	-	3.59	IVR BBB/ Stable
Long term fund based facility - Cash Credit	-	-	-	25.00	IVR BBB/ Stable
Short term non fund based facility - Letter of Credit	-	-	-	3.06	IVR A3+

Annexure 2: List of companies considered for consolidated analysis:

Sr.No.	Name of company	Extent of consolidation (%)
1.	KKP Spinning Mills Pvt Ltd	100



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2.	KKP Fine Linen Pvt Ltd	100
3.	KKP Hi Tech Weaving India Pvt Ltd	100
4.	KKP Weaving and Processing Mills Pvt Ltd	100
5.	KKP Garments Pvt Ltd	100

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-KKPWeaving-may23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.