



Press Release

KKP Weaving and Processing Mills Private Limited

July 29, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	<u>Complexity Indicator</u>
Long-Term Bank Facilities	50.94	IVR BBB; Stable (IVR Triple B with Stable outlook)	IVR BBB; Stable (IVR Triple B with Stable outlook)	Reaffirmed	Simple
Short-Term Bank Facility	3.06	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	54.00 (INR Fifty four crore only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

For arriving at the rating, Infomerics Ratings has combined the financials of KKP Weaving and Processing Mills Pvt Ltd, KKP Garments Pvt Ltd, KKP Hi Tech Weaving India Pvt Ltd, KKP Spinning Mills Pvt Ltd, and KKP Fine Linen Pvt Ltd collectively referred to as the KKP group as these entities run under a common management, have operational and financial linkages with cash flow fungibility.

The reaffirmation in rating assigned to the bank facilities of KKP Weaving and Processing Mills Pvt Ltd is mainly driven by stable business performance of the group marked by steady revenue generation in FY23 [FY refers to the period from April 01 to March 31] and subsequently in FY24 (Provisional) coupled with increase in profitability amid adverse industry scenarios supported by integrated nature of its operation along with diversified product offerings and geographical presence. Further, the rating also continues to derive comfort from its experienced promoters with established track record of operation supported by long term relationships with its customers & suppliers and KKP groups satisfactory capital structure with average debt protection metrics. However, these rating strengths are constrained by modest scale of operation of the company, inherent volatility associated with raw material prices and its impact on the profitability, working capital intensive nature of operation, group's presence in highly fragmented and competitive industry with exposure to cyclical nature of the industry.



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The stable outlook reflects expected stable credit risk profile of KKP group with improvement in business performance in the near term driven by expected improvement in the textile industry underpinned by its integrated nature of operation.

Key Rating Sensitivities:

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in capital structure and/or improvement in debt protection metrics with improvement in adjusted overall gearing to below 1x and improvement in interest coverage ratio to above 3x
- Improvement in working capital management with improvement in liquidity

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Withdraw of subordinated unsecured loan treated as quasi equity and/or any unplanned capex leading to impairment in capital structure with adjusted overall gearing moving over 2x and interest coverage moderated to below 2x
- Stretch in the working capital cycle driven by pile-up of inventory or stretch in receivables impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experienced management with established track record of operations

The promoter, Mr. P. Nallathambi, has an experience of about three decades 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 professional. The KKP Group has an established presence and long track record of around three decades.

Steady revenue generation amid adverse industry scenario supported by integrated nature of operation



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The Indian textile industry has gone through a rough phase for the past two consecutive fiscal years i.e. FY23 and FY24 owing to multiple geopolitical crisis. Russia Ukraine war followed by the recession in EU has led to a sluggish demand of textile products affecting the export which has impacted the domestic cotton and yarn price as well. Further, Indian exporters are unable to make inroads in various markets as Bangladesh with lesser labour cost coupled with duty free access to EU market has higher competitive advantage. The KKP Group is vertically integrated with facilities across spinning, knitting, printing, stitching and embroidery and all the group companies have common management and complement each other's operations. Under the adverse industry scenario supported by its strong vertically integrated operation involved across all value chain in the textile industry KKP group has reported a steady topline of Rs.1036.28 crore in FY23 against Rs.1086 crore in FY22. As per FY24 (provisional) the total operating income of the group though slightly moderated, continues to remain satisfactory at ~Rs.1010.80 crore.

Increase in profitability though diversified product offerings and geographical presence

Driven by decline in cotton candy prices which had a cascading effect leading to decline in yarn prices, the group backed by its integrated operation, supported by its expanded geographical presence and diversified product base of Made-ups, fabric and yarn has reported an increase in operating margin in FY23 to 7.83% against 5.44% of FY22 which further improved to 9.32% in FY24 (Provisional). Consecutively, the PAT margin has also improved from 1.48% in FY22 to 2.86% in FY24 (Prov.). The non-operating income which stood at ~Rs.12.72 crore in FY24 (Prov.) mainly consists of forex gain, interest, and misc. income and insurance claim settlement of Rs. 5.74 crore regarding a fire incident which took place in KKP Fine Linen Private limited in FY23. Without considering the one-time insurance claim of Rs. 5.74 crore, the PAT margin still improved to 2.31% in FY24. The absolute EBITDA and net cash accrual of the group has also improved to ~Rs.94.25 crore and Rs.52.64 crore respectively in FY24 (Provisional) from Rs.59.08 crore and Rs.32.27 crore in FY22. EBITDA and PAT margin of KKP Weaving and Processing Mills Pvt Ltd has improved and stood at 7.13% and 1.89% respectively in FY24 provisional against 4.97% and 1.73% respectively in FY22.

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



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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.

Comfortable capital structure with average debt protection metrics

The group has a comfortable capital structure on the back of its satisfactory adjusted net worth base of Rs.272.18 crore as on March 31, 2024 (Prov.), which includes subordinated unsecured loan of Rs.74.22 crore. On account of increase in working capital borrowings to support the growing business along with the capex in KKP spinning Mills private (increase in Air jet looms) for Total debt of the group has increased to Rs.381.49 crore in FY24 compared to Rs.310.03 crore in FY22. However, the adjusted debt to equity and overall gearing has improved and stood satisfactory at 0.45x and 1.40x respectively as on March 31, 2024 (Prov.), compared to 0.48x and 1.53x respectively as on March 31, 2022. The overall indebtedness marked by TOL/ATNW also improved to 1.70x as on March 31, 2024 (Prov.), as against 1.82x as on March 31, 2022. Driven by the increase in debt in the capital structure, finance cost of the group has increased over the past couple of years. Despite increase in absolute EBITDA, the interest coverage has slightly moderated and stood at 2.28x in FY24 (Prov.) against 2.42x in FY22. However, other debt protection metrics marked by Total Debt/EBITDA and Total Debt/NCA has improved and stood at 4.05 times and 7.25 years as on March 31, 2024 (Prov.), compared to 5.25 times and 9.61 years as on March 31, 2022. Adjusted overall gearing and TOL/ATNW of KKP Weaving and Processing Mills Pvt Ltd has stood moderate at 1.14x and 1.27x as on March 31, 2024 (Prov.).

Key Rating Weaknesses:

Modest scale of operation

Total operating income of KKP Weaving and Processing Mills Pvt Ltd on a standalone basis has continued to remain small though improved and stood at ~Rs.139.76 crore in FY24 (Provisional) against Rs.110.52 crore of FY23. The modest scale of operation restricts the financial flexibility of the company to some extent.

Working capital intensive nature of operations

The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement



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for upcoming 5-6 months until the start of the next season. Average inventory period and debtor days stood at 98 days and 88 days respectively as on March 31, 2024, leading to an elongated conversion cycle of 164 days in FY24 [Prov.] (FY23: 143 days). Moreover, the average fund based working capital utilization stood high at ~90% for last 12 months ended April 2024.

Inherent volatility associated with raw material prices and its impacting profitability

The company's profitability is susceptible to the movement in the prices of raw cotton which is the key raw material for production of cotton yarn. The prices of raw cotton are volatile in nature and depend upon factors such as area under production, yield, vagaries of monsoon, international demand supply scenario, inventory carry forward from the previous year and export quota along with minimum support price (MSP) decided by the government. Prices of raw cotton have been volatile over last couple of years, which translates into risk of inventory losses for the industry players. Since raw cotton is an agricultural commodity, its availability is limited and primarily depends on the monsoon.

Presence in highly fragmented and competitive industry and exposure to cyclical nature of industry

The Indian textile industry consists of large, organized players who contribute to ~75 per cent of total installed capacity and the remaining ~25 per cent is contributed by unorganized segment. KKP group is a relatively medium player in this space, thereby lacking the benefits of economies of scale. The intense competition in the highly fragmented textile industry also restricts its ability to completely pass on volatility in input cost to its customers. Similarly, the margin from cotton yarn segment is highly susceptible to changes in the prices of cotton.

Analytical Approach: Combined

For arriving at the rating, Infomerics Ratings has combined the financials 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 collectively referred to as the KKP group as these entities run under a common management, have operational and financial linkages with cash flow fungibility. The lists of companies considered for consolidation are given in **Annexure 4**.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning Rating outlook](#)



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[Policy on Default Recognition](#)

[Consolidation of Companies](#)

[Criteria on complexity](#)

Liquidity: Adequate

The liquidity position is adequate marked by sufficient accruals to repay its term debt obligations. The net cash accrual of the group stood at ~Rs.52.64 crore in FY24 (Provisional) as against the repayment obligation of Rs.28.89 crore for the same period. With the expected recovery of textile industry from FY25 onwards supported by the integrated nature of operation, the group is expected to generate cash accruals in the range of ~Rs.57-68 crore during the projected period of FY25-27 against scheduled debt repayment obligation of ~Rs. 34-26 crore in the aforesaid period. The group's working capital limits average utilisation stood at 85-93% for past twelve months ended April 2024. Current ratio stood satisfactory at 1.49 times as on March 31, 2024 (Prov.), and free cash and cash equivalents of the group stood at Rs.7.00 Cr as on June 30, 2024. However, any unplanned capex or stretch in operating cycle might affect the liquidity to some extent.

About the Group

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. KKP Group was started in 1984 in Namakkal, Tamil Nadu. The group is a vertically integrated unit, starting from spinning of yarn into making end products like fabrics, bed linen, etc. The manufacturing excellence of the group has been recognized and awarded by renowned institutions like Quality Circle Forum of India, and ABK-AOTS DOSOKAI for practicing best 5s and TPM Standards.

About the Company:

KKP Weaving and Processing Mills Private Ltd was incorporated in October 1983 and is a manufacturer and supplier of yarn and fabric. The company is engaged in weaving activity and has 100 air-jet looms and also generates captive power through own windmills with installed capacity of 2.45 MW. The company derives all its revenue from the domestic market.



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Financials of KKP Weaving and Processing Mills Private Ltd (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	110.52	139.76
EBITDA	6.82	9.97
PAT	1.18	2.66
Total Debt	42.94	44.08
Tangible Net worth	16.79	19.46
Tangible Net worth (Adjusted)	35.93	38.60
EBITDA Margin (%)	6.17	7.13
PAT Margin (%)	1.07	1.89
Overall Gearing Ratio (x) (Adjusted)	1.19	1.14
Interest Coverage	1.58	2.14

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The ratings of KKP Garments Pvt Ltd have been classified under Issuer Not Cooperating category by Brickwork Ratings vide press release dated May 14, 2024, due to unavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					May 30, 2023		
1.	Term Loan	Long Term	17.55	IVR BBB/Stable	IVR BBB/Stable	-	-
2.	GECL	Long Term	2.64	IVR BBB/Stable	IVR BBB/Stable	-	-
3	Cash Credit	Long Term	28.00	IVR BBB/Stable	IVR BBB/Stable	-	-
4.	Letter of Credit	Short Term	3.06	IVR A3+	IVR A3+	-	-
5.	Proposed	Long Term	2.75	IVR BBB/Stable	IVR BBB/Stable	-	-



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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	28.00	IVR BBB/ Stable
Long Term Fund Based Limits –GECL	-	-	Feb 2027	2.64	IVR BBB/ Stable
Long Term Fund Based Limits –Term Loan			Aug 2029	17.55	VR BBB/ Stable
Short Term Non Fund Based Limits –Letter of Credit				3.06	IVR A3+
Long Term Fund Based Limits-Proposed	-	-	-	2.75	IVR BBB/ Stable

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-KKPWeaving-july24.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis:

Name of the Company	Consolidation Approach
KKP Spinning Mills Pvt Ltd	Full Consolidation
KKP Fine Linen Pvt Ltd	Full Consolidation
KKP Hi Tech Weaving India Pvt Ltd	Full Consolidation
KKP Garments Pvt Ltd	Full Consolidation
KKP Weaving and Processing Mills Pvt Ltd	Full Consolidation

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