November 27, 2023

KKV Agro Powers Limited: [ICRA]BB+(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund Based-Term Loan	2.59	[ICRA]BB+(Stable); assigned
Long term Fund Based- Cash Credit	12.50	[ICRA]BB+(Stable); assigned
Long term Unallocated Limits	4.41	[ICRA]BB+(Stable); assigned
Total	**19.50**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for KKV Agro Powers Limited (KKV) considers the extensive experience of the promoters, who belong to the erstwhile The Chennai Silks Group, which is involved in textile retailing for over five decades and in retailing of jewellery for over two decades. The rating also factors in the benefits derived from operational synergies, backed by the Group support. ICRA notes that an increase in turnover since FY2021 is primarily driven by revenues derived from bullion trading operations. KKV's coverage metrics remained adequate with an interest coverage of 4.3 times and DSCR of 1.2 times in H1 FY2024. The capital structure was also comfortable with a gearing of 0.6 times and TOL/TNW of 1.2 times as on September 30, 2023.

The rating, however, is constrained by thin operating profits derived from bullion trading operations and its susceptibility to volatility in gold prices. The rating also factors in the variability in wind speed and solar irradiation, which may affect power generation, leading to volatility in revenues, cash flows and debt coverage metrics. The rating is further constrained by KKV's susceptibility to regulatory risks associated with the jewellery industry.

The Stable outlook on the rating reflects ICRA's opinion that KKV's operational and financial performances will continue to benefit from the stable demand conditions and comfortable coverage metrics.

Key rating drivers and their description

Credit strengths

Long experience of promoters – The company is a part of the erstwhile The Chennai Silks Group, which has established presence of over four decades in jewellery and textile retailing, and substantial track record in power generation. Strong operational support from its promoter group in terms of established customer network and strong management will further help KKV in its recently diversified operations of bullion trading. The promoters are aided by competent senior management with considerable experience in the line of business.

Limited price fluctuation and inventory risks – The working capital requirement remains low as KKV's bullion trades are covered on a back-to-back basis with a minimal credit. The working capital intensity stood at 0.8% in FY2023 and is likely to remain at the same level, going forward.

Operational synergies for being a part of The Chennai Silk Group – The erstwhile Chennai Silks Group has been involved in textile retailing business for nearly five decades under the brand, The Chennai Silks (TCS) and jewellery retailing business for over two decades under the brand, Sree Kumaran Thanga Maligai (SKTM). Post demerger also, the Group entities continue to carry on their textile/jewellery retailing business under these brands. The company's major portion of revenue is contributed by Group companies through sale of power and jewellery. As such the company enjoys preferred supplier status among its Group companies on account of optimisation of procurement costs.

Credit challenges

Inherently thin margin in bullion trading business along with intense competition – The company is primarily a trading agent, which deals in procurement and distribution of bullion. The operating profit margin of the company remained low and stood at 0.4% and 0.2% in FY2023 and H1 FY2024 owing to the low value additive nature of the business and intense competition.

Geographical concentration and vulnerability of cash flow to weather fluctuations – The company operates nine wind power generating assets located at Tirunelveli (two) and Coimbatore (five) districts in Tamil Nadu and Anantapur (two) district in Andhra Pradesh apart from a solar plant in Tirupur, Tamil Nadu. As such, the company's business is mainly concentrated in southern Tamil Nadu and parts of Andhra Pradesh and is thus exposed to socio-economic risks in the region. Additionally, the power generating assets are exposed to inherent risks of weather fluctuations, leading to variation in wind pattern, which can affect the power load factor (PLF). The achievement of desired PLF level is important to sustain revenue and profitability.

Exposure to regulatory risks – KKV's gold trading operations remain exposed to uncertainties over regulatory measures. Its revenue and profitability also depend on the duty structure, and any adverse change in regulatory policies can impact the operating performance of KKV.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery industry. Indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery industry. The sector has witnessed increased focus on product quality and transparency in pricing, which has supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including, among other things, a shift towards less gold-intensive daily/fashion jewellery.

Liquidity position: Stretched

KKV's liquidity position is stretched, considering the limits available with the company against the scale of operations. However, the company's low working capital intensity provides comfort to its liquidity. The company had a sanctioned fund-based working capital facility of Rs. 12.5 crore, the average utilisation of which remained at ~80% over the past 12 months. ICRA notes that the company does not have any major capex plan in the near future. Hence, the net cash accruals and existing working capital limits are likely to be sufficient for servicing its debt obligations and any contingencies.

Rating sensitivities

Positive factors – The rating could be upgraded upon sustained growth in revenues and earnings along with an improvement in the liquidity position.

Negative factors – The rating could be downgraded owing to any sustained pressure on earnings or any stretch in the working capital cycle, which would adversely impact its coverage metrics and liquidity profile. Specific credit metrics that could lead to a rating downgrade include an interest coverage ratio of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology

Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

KKV Agro Power Limited was incorporated in June 2012 in Coimbatore, Tamil Nadu as Nachas Wind Energy Private Limited to develop and operate power generating assets, particularly in the renewable energy space. The company is a part of Chennai Silks Group, which is an established player in the textile and jewellery segments in Tamil Nadu. The company in recent years had commenced bullion trading, which has resulted in a substantial increase in its top line.

Additionally, it operates nine wind power generating assets with a combined capacity of 7,600 KW located at Tirunelveli and Coimbatore districts in Tamil Nadu and Anantapur district in Andhra Pradesh. The company also operates a 1-MW and 2-MW solar power plant at Tirupur and Karur districts in Tamil Nadu. The company's shares are listed on the SME platform of the National Stock Exchange of India Ltd.

Key financial indicators (audited)

KKV Agro Powers Limited	FY2022	FY2023	H1 FY2024*
Operating income	447.5	1236.7	1025.2
PAT	1.2	1.2	0.6
OPBDIT/OI	1.05%	0.39%	0.21%
PAT/OI	0.27%	0.10%	0.05%
Total outside liabilities/Tangible net worth (times)	1.5	1.2	1.3
Total debt/OPBDIT (times)	1.1	2.8	6.4
Interest coverage (times)	4.4	3.2	4.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 27, 2023	-	-	-
1	**Term Loans**	Long term	2.59	2.59	[ICRA]BB+ (Stable)	-	-	-
2	**Cash Credit**	Long term	12.50	-	[ICRA]BB+ (Stable)	-	-	-
3	**Unallocated Limits**	Long term	4.41	--	[ICRA]BB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple

Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2020	8.9%	FY2026	2.59	[ICRA]BB+(Stable)
NA	Cash Credit	NA	NA	NA	12.50	[ICRA]BB+(Stable)
NA	Unallocated Limits	NA	NA	NA	4.41	[ICRA]BB+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

G S Ramakrishnan
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Nilesh Kumar Jain
+91 44 4596 4319
nilesh.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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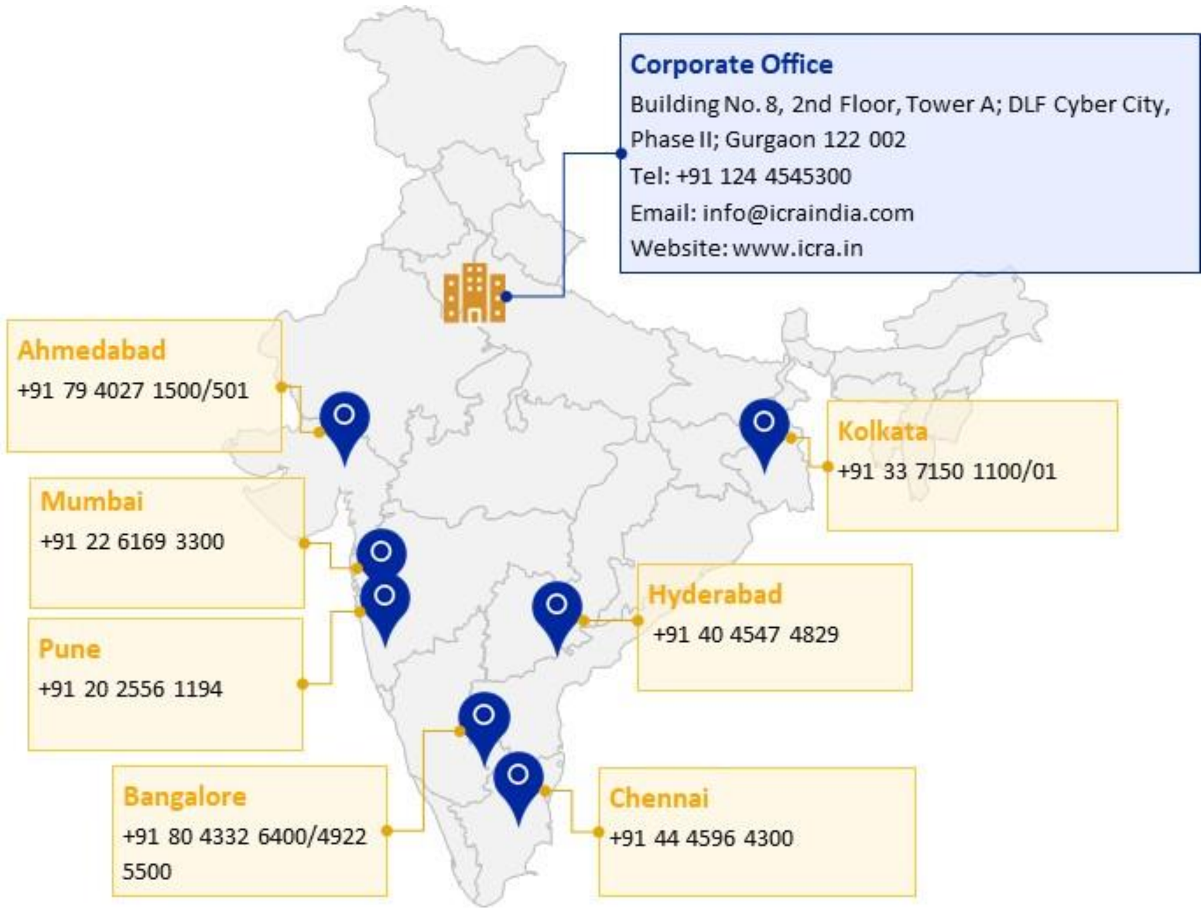
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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