November 02, 2017

K K Silk Mills Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	25.75	[ICRA]BB+ (Stable); Reaffirmed
Fund based – Term Loans	6.21 (revised from 10.02)	[ICRA]BB+ (Stable); Reaffirmed
Non Fund based – Letter of Credit	1.00	[ICRA]A4+; Reaffirmed
Non Fund based – Bank Guarantee	0.05	[ICRA]A4+; Reaffirmed
Unallocated Limit	3.81 (earlier nil)	[ICRA]BB+ (Stable)/ [ICRA]A4+; Reaffirmed
Total	**36.82**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) assigned to the Rs. 31.96-crore[1] fund based facilities of K K Silk Mills Private Limited (KKSM or the company)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs. 1.05-crore non-fund based facilities of KKSM. ICRA has reaffirmed the [ICRA]BB+ and [ICRA]A4+ ratings to the unallocated limit of Rs. 3.81 crore of KKSM as well. The outlook on the long-term rating is 'stable'.

Rationale

The re-affirmation of the ratings continue to take into account the extensive experience of KKSM's promoters in the textile industry, its longstanding relationship with customers and suppliers and the company's well diversified customer profile, which mitigates customer concentration risk. The ratings continue to factor in the fiscal incentives available under TUFS which reduces the cost of borrowing and renders supports to the profitability to some extent.

The ratings, however, are constrained by KKSM's modest profitability on account of low value added nature of trading activities and intense competition in the fabric manufacturing business which limits financial flexibility. The ratings also remain constrained by the company's leveraged capital structure as indicated by high gearing of 1.72 times as on 31st March 2017 and the high working capital intensive nature of its business emanating from the slow realisation of payments from the customers. This has also resulted in near to full utilisation of working capital limits from the bank. Further, the ratings also take note of the vulnerability of company's profitability to fluctuations in the raw material prices and cyclicality inherent in the textile industry; although the same is partly mitigated by the procurement of raw materials against firm orders.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Going forward, KKSM's ability to ramp up its scale of operation while improving its profitability amid an intense competitive market will remain the key ratings monitorable. Also, the judicious management of its working capital cycle particularly by faster realisation of payments from the customers will remain critical so as to improve its liquidity position and hence will be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Extensive experience of promoters in the textile industry -** The extensive experience of the promoters in the textile industry for over two decades has facilitated the company to establish strong relationships with customers as well as suppliers.
- **Diversified customer base –** Over the years, KKSM's revenues are diversified across a large customer base who largely comprise of wholesalers and distributors. The customer concentration risk has remained low, with the top 10 customers accounting for ~31% of total sales in FY2017.
- **Financial benefits in terms of interest subsidy given by government provide support to the company's profitability –** The company is eligible for Central Government's Technology Upgradation Fund (TUF) Scheme for the capex incurred in the past. The scheme mainly provides for reimbursement of 5% interest charged by the financial institutions/banks for technology up-gradation projects in conformity with the Scheme.

Credit weaknesses

- **Modest profitability due to low value added nature of business –** Despite steady growth in company's operating income, its margins have remained low on account of low value added nature of business due to significant presence of trading and job work revenues. This along with high competition in fabric manufacturing business has limited the company's pricing flexibility.
- **Leveraged capital structure and modest coverage indicators –** The debt level of the company comprises of secured loans from banks, unsecured loans from promoter, body corporate and NBFC's, and working capital borrowings from bank. As on March 31, 2017, the debt level of the company moderated to Rs. 45.48 crore from Rs. 46.99 crore as on March 31, 2016 on account of repayment of term loans. Nevertheless, the capital structure of the company continues to weak as depicted by a high gearing 1.72 times as on 31st March, 2017. Further, low profitability and high borrowings has resulted in modest coverage indicators as indicated by NCA/Total debt and Total debt/ OPBDITA of 9% and 5.26 times respectively in FY2017.
- **High working capital intensity arising from high receivables level which impacts liquidity–** During FY2017, realisation of payments from debtors remained slow leading to debtors days of 108 days from 83 days in FY2016. Delayed realisation of payments from debtors has resulted in stretched payables which stood at 58 days in FY2017 from 36 days in FY2016. KKSM maintains an inventory of about 40-60 days, consisting of stock in trade and various types of products manufactured. In the last fifteen months, the utilisation level of the working capital limits from the bank has remained near to full which indicates tight liquidity position.
- **Profitability susceptible to fluctuations in raw material prices –** Over the past, the company has had limited exposure to volatility in raw material prices on account of high proportion of revenues from trading and job work services. However, with the increase in production capacity and medium term move towards manufacturing of greige cloth; the company's exposure to raw material price volatility has increased. KKSM's key raw materials are cotton, polyester and blended yarns which are dependent on market dynamics. The company procures raw materials against orders & follows per order pricing policy which mitigates the raw material cost volatility risk to some extent. Also, the textile trading industry is extremely fragmented, and is dominated by a large number of small players thereby limiting price flexibility.

- **Intense competitive pressures on account of fragmented industry structure -** KKSM faces stiff competition from established organised players and dominant unorganised players in the industry. During the last few years, the textile industry has become more competitive with several new players entering the industry, thereby putting pressure on KKSMPL's revenues and margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Indian Textiles Industry – Fabric

About the company:
Incorporated in 1992, K K Silk Mills Private Limited (KKSMPL) (erstwhile Manish Weaving Industries Private Limited) was promoted by Mr. Kantilal Shah to manufacture and trade in fabrics for suitings and shirtings. The company was rechristened as K K Silk Mills Private Limited in 2003 without any change in management and nature of business undertaken. The company's operations are divided into four different verticals viz. trading of finished fabrics, manufacturing of cotton and blended fabrics, job work for upholstery/furnishing fabrics and garment manufacturing. The company has its registered office in Mumbai and manufacturing facilities in Umbergaon district in Valsad. The company owns 176 looms with combined installed capacity of ~ 96 lakh meters per annum. The garment manufacturing division is also located in Umbergaon, which has a capacity of producing 18000 shirt pieces per month.

In FY2017, on a provisional basis, the company reported a net profit of Rs. 1.22 crore on an operating income of Rs. 142.09 crore, as compared to a net profit of Rs. 0.90 crore on an operating income of Rs. 131.32 crore in the previous year.

Key Financial Indicators

	FY2016	FY2017
	Audited	**Provisional**
Operating Income (Rs. crore)	131.32	142.09
PAT (Rs. crore)	0.90	1.22
OPBDIT/ OI (%)	6.81%	6.08%
RoCE (%)	9.59%	9.90%
Total Debt/ TNW (times)	1.86	1.72
Total Debt/ OPBDIT (times)	5.26	5.26
Interest coverage (times)	1.81	1.87
NWC/ OI (%)	31%	30%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	July 2016	April 2015	May 2014
1	Cash Credit	Long Term	25.75	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+(Stable)
2	Term Loans	Long Term	6.21	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Letter of Credit	Short Term	1.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
4	Bank Guarantee	Short Term	0.05	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Unallocated Limit	Long Term/ Short Term	3.81	[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	25.75	[ICRA]BB+ (Stable)
-	Term Loans	-	10.40%	FY2021	6.21	[ICRA]BB+ (Stable)
-	Letter of Credit	-	-	-	1.00	[ICRA]A4+
-	Bank Guarantee	-	-	-	0.05	[ICRA]A4+
-	Unallocated Limit	-	-	-	3.81	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: KKSM

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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