February 25, 2025

KKV Agro Powers Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating Action
Long term – Fund based – Term loans	2.59	1.39	[ICRA]BB+ (Stable); reaffirmed
Long term – Fund based – Cash credit	12.50	12.50	[ICRA]BB+ (Stable); reaffirmed
Long term - Unallocated limits	4.41	5.61	[ICRA]BB+ (Stable); reaffirmed
Total	**19.50**	**19.50**	

** Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation on the bank lines of KKV Agro Powers Limited (KKV) considers an expected improvement in the company's operational and financial performances over a medium term, supported by 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 two decades. The operating profitability of KKV has remained low for the past four fiscals, following the entity's venture into bullion trading, where margins are very minimal. More than ~95% of its revenues are generated from bullion trading, while the balance comes from sale of wind/solar power and jewellery retail sales at its Cumbum showroom. The rating continues to be supported by its adequate coverage indicators, with an interest coverage ratio of 4.7 times and a debt service coverage ratio of 1.9 times in H1 FY2025. Further, its capital structure remains comfortable with a gearing of 0.5 times and TOL/TNW of 1.5 times as on September 30, 2024.

The rating, however, remains constrained by the thin profit margins and the susceptibility of its margins 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 long-term rating reflects ICRA's expectation that KKV is likely to improve its revenues and operating metrics over the medium term. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their descriptions

Credit strengths

Extensive experience of promoters and operational synergies for being a part of The Chennai Silk Group – The company is a part of the erstwhile The Chennai Silks Group, which 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). Even post demerger, the Group entities continue to carry on their textile/ jewellery retailing under these brands. Strong operational support from the promoter Group, in terms of established customer network and extensive experience of management, has aided KKV in its diversified operations of bullion trading. The company derives the major portion of its revenues from its Group companies through the sale of power and bullion.

Healthy coverage indicators – KKV's financial profile remains healthy with a conservative capital structure and adequate coverage indicators. Its capital structure remains comfortable, with a gearing of 0.5 times and TOL/TNW of 1.5 times as on September 30, 2024. Besides, its coverage indicators remained healthy with an interest coverage ratio and debt service coverage ratio of 4.7 times and 1.9 times, respectively in H1 FY2025. Going forward, KKV's coverage indicators are likely to remain comfortable, supported by absence of any debt-funded capex plans.

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 remained low and stood at 0.2% and 0.5% in FY2024 and H1 FY2025, owing to the low value additive nature of the business and intense competition.

Geographical concentration and vulnerability of cash flow to fluctuation in weather – The company operates nine wind power generating assets 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. 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). Achievement of the desired PLF level is important to sustain revenue and profitability.

Exposed to regulatory risks – KKV's gold trading operations remain exposed to uncertainties over regulatory measures. Further, its volumes and profitability depend on the duty structure. 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 wholesale industry. Few concerns include episodes of excessive rainfall/flooding in the operating regions, impacting its jewellery stores. Additionally, the indirect risk of rural demand for jewellery moderating during periods of crop loss caused by the physical climate change also pose risks to revenue growth and profitability.

Social Considerations – Exposure to social risks remains moderate for entities in the jewellery wholesale industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour. Additionally, with a relatively higher requirement of workforce for jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, especially given the skilled nature of work.

Liquidity position: Stretched

KKV's liquidity position is stretched, considering the limits available with the company against its 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 stood at ~80% over the past 12 months ending in December 2024. ICRA notes that the company does not have any major capex plan in the near-to-medium term. Hence, the net cash accruals and existing working capital limits are likely to be sufficient for servicing its debt obligations and any contingency.

Rating Sensitivities

Positive factors – The rating could be upgraded in case of a sustained growth in earnings, along with an improvement in the liquidity position**.**

Negative factors – The rating could be downgraded in case of 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 rating is based on the standalone financial profile of the company

About the company

KKV 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 the Chennai Silks Group, which is an established player in the textile and jewellery segments in Tamil Nadu. The company derives more than 95% of its revenues from bullion trading, while the balance is generated from the sale of power and jewellery at its retail store in Cumbum, under the franchise of Sree Kumaran Thanga Maligai.

It operates nine wind power generating assets with a combined capacity of 7.6 MW located at Tirunelveli and Coimbatore districts in Tamil Nadu and Anantapur district in Andhra Pradesh. The company also operates a 1-MW and a 2-MW solar power plant at Tirupur and Karur districts in Tamil Nadu, respectively. The company's shares are listed on the SME platform of the National Stock Exchange of India Ltd.

Key Financial Indicators (audited)

VSRHPL Consolidated*	FY2023	FY2024	H1 FY2025*
Operating income	1,236.7	1,553.8	439.0
PAT	1.2	0.3	0.9
OPBDIT/OI	0.4%	0.2%	0.5%
PAT/OI	0.1%	0.0%	0.2%
Total outside liabilities/Tangible net worth (times)	1.2	1.3	1.5
Total debt/OPBDIT (times)	2.8	5.2	2.7
Interest coverage (times)	3.2	2.5	4.7

*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 (FY2025)		Chronology of rating history for the past 3 years								
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022		
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based – Term Loan	Long term	1.39	Feb 25, 2025	**[ICRA]BB+ (Stable)**	Nov 27, 2023	**[ICRA]BB+ (Stable)**	-	-	-	-
Fund Based-Cash Credit	Long term	12.50	Feb 25, 2025	**[ICRA]BB+ (Stable)**	Nov 27, 2023	**[ICRA]BB+ (Stable)**	-	-	-	-
Unallocated Limits	Long term	5.61	Feb 25, 2025	**[ICRA]BB+ (Stable)**	Nov 27, 2023	**[ICRA]BB+ (Stable)**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based – Term loan	Simple
Long term - Fund based- Cash credit	Simple
Long term - Unallocated limits	Not Applicable

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	**Fund based – Term loan**	FY 2020	-	FY 2026	1.39	[ICRA]BB+(Stable)
NA	**Fund based- Cash credit**	NA	NA	NA	12.50	[ICRA]BB+(Stable)
NA	**Unallocated limits**	NA	NA	NA	5.61	[ICRA]BB+(Stable)

Source: Company Data

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

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

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