

Press Release

Sri Kannapiran Mills Limited

December 06, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 82.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 82.00 crore bank facilities of Sri Kannapiran Mills Limited (SKML). The outlook is '**Stable**'.

SKML was incorporated as a public limited company in 1946. The company is currently managed by Mr. KG Baalakrishnan. Located in Coimbatore (Tamil Nadu), SKML's spinning units currently have a combined installed capacity of 55632 spindles to manufacture cotton yarn (combed and carded) of counts 6s to 100s. The company also manufactures open ended cotton yarn with counts 2s to 20s and has 6960 rotors.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SKML to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

The company was taken over in 1971 by Mr. K Govindaswamy Naidu and his son, Mr. KG Baalakrishnan. From then, the company is promoted by Mr. KG Baalakrishnan, who has around five decades of experience in the textile industry. The operations of the units are supported by captive wind mill of 1.65 MW and dedicated feeder lines, which supports uninterrupted power supply. The company is also part of KG Group which has presence across textile value chain and manufactures high end material of denim fabric, gloves, among others.

The company has well qualified and experienced second line personnel to support the management. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. The company procures cotton (major raw material) from suppliers in Tamil Nadu, Madhya Pradesh and Maharashtra regions. For FY2018, top ten customers of the company contributed ~26 percent of total revenues providing low customer concentration risk. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

• **Comfortable financial risk profile**

The company's financial risk profile is marked by healthy capital structure and moderate debt protection metrics. The gearing has improved to 0.76 times as on March 31, 2018 from 0.98 times as on March, 2017 supported by moderate cash accruals and repayment of term loans. Net worth is comfortable at Rs.55.48 crore in FY2018, due to accretion to reserves. Its profitability margins are moderate at about 11.97 percent in FY2018. Moderate net cash accruals and moderate debt has led to moderate net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.30 times and 2.96 times in FY2018 vis-à-vis 0.25 times and 2.66 times in FY2017, respectively. The company's cash accruals are expected to be around Rs.12.00 to Rs.15.00 crore against repayment obligations of about Rs.5.2 crore in FY2019 which gives adequate cushion on its liquidity. Acuité believes that with moderate profitability margins, and no major significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

• Moderate working capital operations

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 144 days as on March 31, 2018 as against 142 days as on March 31, 2017. The company maintains an inventory of about 30 to 40 days and gives credit period of 60 days to its customers. Inventory days stood at 30 as on March 31, 2018, as against 46 days as on March 31, 2017. Debtor days stood at 78 as on March 31, 2018 as against 52 days as on March 31, 2017. Moderate working capital management and accruals lead to moderate utilisation of its working capital limits at about 80 percent over the past six months ended September 2018. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year, the operations continue to be working capital moderate over the medium term.

• Susceptibility of operating margins to volatility in raw material prices

Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile. Any abrupt change in cotton prices or minimum support price declared by the Government can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Further, the raw material prices, and profitability is linked to the cotton production in the competing countries such as China and USA, carry-over stocks and the demand from the end user segment. Operating margins of the company declined from 13.55 percent in FY2016 to 11.97 percent in FY2018. Acuité believes that players profitability remain susceptible to input prices and demand.

Outlook: Stable

Acuité believes that SKML will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	189.99	176.65	167.49
EBITDA	Rs. Cr.	22.75	22.02	22.70
PAT	Rs. Cr.	8.10	7.18	6.71
EBITDA Margin	(%)	11.97	12.47	13.55
PAT Margin	(%)	4.26	4.06	4.01
ROCE	(%)	18.26	18.01	37.64
Total Debt/Tangible Net Worth	Times	0.76	0.98	1.43
PBDIT/Interest	Times	2.96	2.66	2.37
Total Debt/PBDIT	Times	1.75	1.96	2.37
Gross Current Assets (Days)	Days	144	142	142

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB- / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	21.70	ACUITE BBB- / Stable
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE A3
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.13	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A3
Term loans	Not Applicable	Not Applicable	Not Applicable	1.79	ACUITE BBB- / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A3

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About Acuité Ratings & Research:

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