

Press Release

Sri Kannapiran Mills Limited

July 13, 2020



Rating Withdrawn

Total Bank Facilities Rated*	Rs.82.00 crore
Long Term Rating	ACUITE BB+ (Withdrawn)
Short Term Rating	ACUITE A4+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has withdrawn the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) and the short term rating of '**ACUITE A4+** (read as ACUITE A four plus) on the Rs.82.00 crore bank facilities of Sri Kannapiran Mills Limited.

The rating has been withdrawn on account of request received from the company and NOC received from the banker.

SKML is a part of KG group of Coimbatore. SKML was incorporated as a public limited company in 1946. 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 7112 rotors. The company is currently managed by Mr. KG Baalakrishnan.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and improving business risk profile

The key promoters of NP, Mr. Kamleshbhai Vora and Mr. Swetalbhai Trevadia, have over three decades. The company was taken over by Mr. K Govindaswamy Naidu in 1971 and his son, Mr. KG Baalakrishnan. From then, the company is promoted by Mr. KG Baalakrishnan, who possesses around five decades of experience in the textile industry. The company is also part of KG Group which has presence across the 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 established experience of promoters has enabled SKML to widen the customer base and maintain long-term relations with the suppliers and customers.

Acuité believes that SKML will continue to benefit from the promoter's extensive experience in the industry and its improving business risk profile over the medium term.

• Moderate financial risk profile

NP has a moderate financial risk profile marked by moderate net worth, moderate gearing and debt protection metrics. The moderate tangible net worth is estimated at Rs.93.61 crore as on March 31, 2020 (Provisional) as against Rs.73.54 crore as on March 31, 2018. The company has followed moderately aggressive financial policy in the past, the same is reflected through its peak gearing levels of 1.64 times as on March 31, 2019. The gearing has improved to current levels of 1.18 times as on March 31, 2020 (Provisional). The total debt of Rs.110.79 crore as on March 31, 2020 (Provisional) consists of working capital borrowings of Rs.68.00 crore, term loans of Rs.28.92 crore and unsecured loans from promoters of Rs.13.87 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) showed its peak levels at 2.87 times as on March 31, 2019; this has improved to 2.22 times as on March 31, 2020 (Provisional).

The debt protection metrics stood moderate, marked by Interest Coverage Ratio (ICR) estimated at 1.92 times for both FY2020 (Provisional) and FY2019. Debt Service Coverage Ratio (DSCR) stood at 1.02 per cent in FY2020 (Provisional) as against 1.51 percent in FY2019. NCA/TD stood at 0.13 times as for FY2020

(Provisional) as against 0.12 times for FY2019.

Weaknesses

- **Moderate working capital cycle**

The working capital operations of SKML are moderately marked by GCA days of 162 in FY2020 (Provisional) as against 167 in FY2019. The GCA days are dominated by debtor days and inventory days. Debtor days stood at 62 days for FY2020 (Provisional) as against 60 days in FY2019. Inventory days stood at 70 for FY2020 (Provisional) and 73 for FY2019. Further, the creditors of SKML stood at 161 days for FY2020 (Provisional) and 137 days for FY2019.

- **Susceptibility of operating performance to input price volatility, increasing competition and agro-climatic risk**

Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. The profitability is susceptible to changes in the prices of raw material. However, the selling price of the output depends on the prevailing demand-supply situation restricting bargaining power with customers, thereby impacting margins. SKML operates in a highly fragmented industry characterised by the presence of a large number of unorganised players. Further, Seed cotton is exposed to agro-climatic risks, and the production is also highly dependent upon the monsoon and the climatic conditions. Higher temperature in already hot areas may hinder cotton development and fruit formation resulting in reduced yields.

Liquidity Position: Adequate

The company has an adequate liquidity profile. The company generated cash accruals in the range of Rs.12.71-14.78 crore through FY2020 (Provisional) and its maturing debt obligations were in the range of Rs.3.95-10.00 crore. The company's working capital operations are moderately marked by GCA days of 162 in FY2020 (Provisional). The company maintains unencumbered cash and bank balances of Rs.5.37 crore as on March 31, 2020 (Provisional). The current ratio stood at 0.85 times as on March 31, 2020 (Provisional).

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	315.00	304.56
PAT	Rs. Cr.	6.15	6.52
PAT Margin	(%)	1.95	2.14
Total Debt/Tangible Net Worth	Times	1.18	1.64
PBDIT/Interest	Times	1.92	1.92

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

Not Applicable

Any other information

Not Applicable

Material Covenants

None

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Feb-2020	Working Capital Demand Loan	Long Term	5.00	ACUITE BB+ (Indicative)
	Cash Credit	Long Term	9.50	ACUITE BB+ (Indicative)
	Bills Discounting	Short Term	6.00	ACUITE A4+ (Indicative)
	Term Loan	Long Term	21.70	ACUITE BB+ (Indicative)
	Working Capital Demand Loan	Long Term	3.00	ACUITE BB+ (Indicative)
	Bills Discounting	Short Term	1.20	ACUITE A4+ (Indicative)
	Cash Credit	Long Term	4.00	ACUITE BB+ (Indicative)
	Term Loan	Long Term	1.13	ACUITE BB+ (Indicative)
	Cash Credit	Long Term	10.50	ACUITE BB+ (Indicative)
	Bills Discounting	Short Term	1.80	ACUITE A4+ (Indicative)
	Term Loan	Long Term	1.79	ACUITE BB+ (Indicative)
	Proposed Long Term Loan	Long Term	0.38	ACUITE BB+ (Indicative)
	Letter of Credit	Short Term	7.50	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Indicative)
06-Dec-2018	Letter of Credit	Short Term	3.00	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Indicative))
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Indicative)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BBB-/ Stable (Assigned)
	Bills Discounting	Short Term	6.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	21.70	ACUITE BBB-/ Stable (Assigned)
	Working Capital Demand Loan	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
	Bills Discounting	Short Term	1.20	ACUITE A3 (Assigned)

				(Assigned)
	Bills Discounting	Short Term	1.80	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.79	ACUITE BBB-/ Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.38	ACUITE BBB-/ Stable (Assigned)
	Letter of Credit	Short Term	7.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.20	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.30	ACUITE A3 (Assigned)

***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	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BB+ (Withdrawn)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	21.70	ACUITE BB+ (Withdrawn)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ (Withdrawn)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BB+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	1.13	ACUITE BB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BB+ (Withdrawn)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A4+ (Withdrawn)
Term Loan	Not Available	Not Applicable	Not Available	1.79	ACUITE BB+ (Withdrawn)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.38	ACUITE BB+ (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Withdrawn)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+ (Withdrawn)

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About Acuité Ratings & Research:

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