

## Press Release

### Sri Kannapiran Mills Limited

March 28, 2023

### Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	142.85	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	33.15	-	ACUITE A3+   Assigned
Total Outstanding Quantum (Rs. Cr)	176.00	-	-

### Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB**' (read as **ACUITE triple 'B'**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.176.00 crore bank facilities of Sri Kannapiran Mills Limited (SKML). The outlook is '**Stable**'

#### Rational for rating

The rating action takes into account the promoters extensive industry experience along with established track record of operations in textile industry of more than 45 years which is also reflected through the substantial revenue growth in FY2022 to Rs. 495.77 Cr from Rs. 254.88 Cr in FY2021. Further the rating factors in improved operating performance in FY22 and healthy financial risk profile. However, rating is constrained by its moderately working capital intensive nature of operations also reflected by moderate bank limit utilization of 85% for 6 months ended January 2023 and susceptibility to fluctuations in raw material prices.

#### About the Company

Sri Kannapiran mills limited(SKML) was taken over by Mr. K Govindaswamy Naidu in 1977. SKML is part of KG group which is an integrated textile conglomerate involved in ginning, spinning, manufacturing of denim, terry products, blankets, safety knitted cotton gloves, weaving and readymade garments. The other group companies are KG Denim Limited & its wholly owned subsidiary Trigger Apparels Limited. SKML is presently managed by Mr K G Balakrishnan (Chairman), Mr B Sriramulu (Managing Director) and Mr B Srihari (Managing Director). Currently SKML has 4 spinning units, 1 glove making unit 1 reeling and TFO unit and 1 weaving plant. The Present Directors of the company are Mr. Govindaswamynaidu Balakrishnan, Mr. Ayyalusamy Velusamy, Mr. Balakrishnan Srihari, Mr. Balakrishnan Sriramulu, Mr. Bakthavathsalam, Ms. Vanithamani, Mr. Kokku Bhaskara Nagendra Murthy, Mr. Vidyasankar Bhuvaneshwari, Mr. Gobichettipalayam Periasamy Muniappan and Mr. Seenivasahan. The registered office of the company is in Coimbatore. SKML manufactures variety of yarns (40s, 60s, 80s, 100s). SKML has installed capacity of 55968 spindles, 7954 rotors. Company's registered office is located in Coimbatore, TN.

#### Analytical Approach

ACUITE has considered standalone business and financial risk profile of Sri Kannapiran Mills Limited (SKML)

## Key Rating Drivers

### Strengths

#### **Established track record of operations and experienced management in textile industry**

SKML is engaged in manufacturing of cotton yarn and gloves for more than 45 years. SKML is presently managed by Mr K G Balakrishnan (Chairman), Mr B Sriramulu (Managing Director) and Mr B Srihari (Managing Director). Currently, SKML has 4 spinning units, 1 glove making unit 1 reeling and TFO unit and 1 weaving plant. The Major raw materials of the include Cotton, Waste cotton, Polyester and other man-made fibres. The company procures cotton and Cotton waste from suppliers in Tamil Nadu, Andhra Pradesh, Karnataka, Madhya Pradesh and Maharashtra regions. Manmade fibres from Reliance, Grasim etc. Company has extensive relationship with its long term customers and suppliers to ensure steady raw material supply and repeat business. Company also has long term power purchase agreement (PPA) with private power suppliers to meets its power requirements at lower price per unit than power supplied by power utilities. Acuite believes that SKML may continue to benefit from its established track record of operations and longstanding relationship with its customers and suppliers.

#### **Augmentation in business risk profile**

The scale of operations of the company has improved significantly in FY 2022 to Rs 494 Cr from Rs 254 Cr in FY 2021. The increase in revenue is supported both by increase in number of volumes sold and better price realization. The volume sales for yarn and fabric segment has increased significantly to 147.31 Lakhs Kgs and 84.23 Lakhs Kgs respectively in FY 2022 against 93.73 Lakhs Kgs and 53 Lakhs Kgs respectively in FY 2021. Further, the company has already achieved a revenue of Rs 372.49 Cr till December 2022 and is expected to archive the turnover ranging between Rs. 505 Cr to Rs. 510 Cr in FY2023 maintaining the steady growth. The operating margins have also improved and stood at 14.03% in FY 2022 as against 11.78% in FY 2021 and 10.93% in FY 2020. Improvement in operating margin is primarily due to higher realisation rate during the year. However, considering the increase in raw material prices in current fiscal year, operating margins are expected to be in the range of 9.5-10% for FY 2023. Acuite believes that maintaining a stable growth in revenue while maintaining profitability is a key rating sensitivity.

#### **Healthy financial risk profile**

Healthy financial risk profile The financial risk profile of the company is healthy marked by healthy net worth, moderate gearing and healthy debt protection metrics despite the continuous debt laden capex. The networth stood at Rs. 114.69 Cr as on March 31st 2022 as against Rs. 89.28 Cr as on March 31st 2021. The increase in networth is majorly due to accretion of profits to reserves. The company follows the conservative financial policy reflected through its gearing (debt-equity) ratio which stood at 1.12 times as on March 31st 2022 as against 1.32 times as on March 31st 2021. The coverage indicators stood comfortable, marked by interest coverage ratio (ICR) at 3.45 times as on March 31st 2022 as against 1.54 times as on March 31st 2021. The DSCR stood at 1.58 times as on March 31st 2022 as against 1.09 times as on March 31 st 2021. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.12 times as on March 31st 2022 as against 2.24 times as on March 31st 2021. Acuite however, believes that the financial risk profile will continue to remain above average despite routine capex supported by stable operating margins.

### Weaknesses

#### **Moderate working capital management**

SKML operations are moderately working capital intensive marked by Gross Current Assets (GCA) days of 143 days in FY2022 as compared to 184 days in FY2021. The GCA days are mainly dominated by inventory holding period of 93 days in FY2022 as against 105 days in FY2021. The collection period was at 45 days in FY2022 as against 66 days in FY2021. Further,

the company's average bank limit utilisation stood at ~85 percent for the last 6 months ended as on January 2023. Acuite' believes that working capital operations of the company may continue to remain moderate considering the nature of business.

### **Susceptible to volatility in raw material prices**

SKML's profitable margins are susceptible to fluctuations in the prices of major raw materials such as domestic and imported cotton, blent and polyester. The main raw material purchased by the company is cotton. Cotton being an agricultural commodity by nature, the margins are susceptible to changes in cotton prices. Cotton availability and price of the same is highly dependent on agro-climatic conditions. Despite the prevalence of Minimum Support Price (MSP), the purchase price depends on the prevailing demand-supply situation, which limits bargaining power with the suppliers as well. As a result, the business is exposed to fluctuations in the commodities prices.

### **Rating Sensitivities**

#### **Positive**

- Sustainable improvement in Revenue and Profitability
- Efficiency in working capital management

#### **Negative**

- Any deterioration in working capital cycle leading to stretch in liquidity
- Any deterioration in Revenue profile and leverage position

### **Material covenants**

None

### **Liquidity Position: Adequate Adequate**

SKML's liquidity is adequate marked by healthy generation of net cash accruals to its maturing debt obligations, albeit low level of unencumbered cash and bank balance and moderate reliance on bank limits. SKML has generated cash accruals in the range of Rs.7.36-35.06 Cr during last 3 years ending FY2022 as against its mature debt obligations of Rs. 7.29 Cr to Rs.14.98 Cr for the same period. Further, the company is expected to generate sufficient cash accruals to meet its repayment obligations in medium term. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 143 days as on 31 March, 2022 as compared to 184 days as on 31 March, 2021. The current ratio stood at 1.13 times as on March 31 2022 against 0.96 in previous year and the fund based limit remains utilized at ~85 percent over the 6 months ended January, 2023. The company maintained low unencumbered cash and bank balances of Rs.0.18 Cr as on 31 March, 2022 against Rs.0.62 Cr in previous year.

### **Outlook: Stable**

Acuite' believes that SKML will maintain 'Stable' outlook over the medium term due to extensive experience of its promoters, healthy growth in sales and healthy financial risk profile. The outlook may be revised to 'Positive' if the company registers expected or higher-than expected growth in revenues and profitability while maintaining its financial risk profile and achieving efficiency in working capital management. Conversely, the outlook may be revised to 'Negative' in case of company's inability to achieve the expected increase in revenue and profitability or deterioration in overall financial risk profile and working capital operations.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	495.77	254.88
PAT	Rs. Cr.	26.76	2.28
PAT Margin	(%)	5.40	0.90
Total Debt/Tangible Net Worth	Times	1.12	1.32
PBDIT/Interest	Times	3.45	1.54

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Jul 2020	Bills Discounting	Short Term	6.00	ACUITE A4+ (Withdrawn)
	Bills Discounting	Short Term	4.00	ACUITE A4+ (Withdrawn)
	Cash Credit	Long Term	9.50	ACUITE BB+ (Withdrawn)
	Cash Credit	Long Term	10.50	ACUITE BB+ (Withdrawn)
	Cash Credit	Long Term	1.20	ACUITE BB+ (Withdrawn)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Withdrawn)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Withdrawn)
	Bank Guarantee	Short Term	0.30	ACUITE A4+ (Withdrawn)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Withdrawn)
	Letter of Credit	Short Term	7.50	ACUITE A4+ (Withdrawn)
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Withdrawn)

	Proposed Long Term Loan	Long Term	0.38	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	1.79	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	21.70	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	1.13	ACUITE BB+ (Withdrawn)
	Bills Discounting	Short Term	1.80	ACUITE A4+ (Withdrawn)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BB+ (Withdrawn)
	Working Capital Demand Loan	Long Term	3.00	ACUITE BB+ (Withdrawn)
	Working Capital Demand Loan	Long Term	5.00	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	21.70	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	1.13	ACUITE BB+ (Issuer not co-operating*)
	Term Loan	Long Term	1.79	ACUITE BB+ (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	3.00	ACUITE BB+ (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	0.38	ACUITE BB+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	0.50	ACUITE A4+ (Issuer not co-operating*)
		Short		ACUITE A4+ (Issuer not co-operating*)
14 Feb 2020	Bank Guarantee	Term	0.30	operating*)
	Bills Discounting	Short Term	6.00	ACUITE A4+ (Issuer not co-operating*)
	Bills Discounting	Short Term	1.80	ACUITE A4+ (Issuer not co-operating*)
	Bills Discounting	Short Term	1.20	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	4.00	ACUITE BB+ (Issuer not co-operating*)
	Cash Credit	Long Term	10.50	ACUITE BB+ (Issuer not co-operating*)
	Cash Credit	Long Term	9.50	ACUITE BB+ (Issuer not co-operating*)
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	7.50	ACUITE A4+ (Issuer not co-operating*)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Issuer not co-operating*)



## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A3+   Assigned
South Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE A3+   Assigned
Central Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.30	ACUITE A3+   Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.12	ACUITE A3+   Assigned
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.68	ACUITE A3+   Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.65	ACUITE BBB   Stable   Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.08	ACUITE BBB   Stable   Assigned
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE BBB   Stable   Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.73	ACUITE BBB   Stable   Assigned
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BBB   Stable   Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE BBB   Stable   Assigned
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	0.29	ACUITE BBB   Stable   Assigned
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	8.44	ACUITE BBB   Stable   Assigned
South Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.74	ACUITE BBB   Stable   Assigned
Central								ACUITE

Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.40	BBB   Stable   Assigned
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.79	ACUITE BBB   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	4.94	ACUITE BBB   Stable   Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	5.08	ACUITE BBB   Stable   Assigned
Central Bank of India	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE A3+   Assigned
South Indian Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	1.20	ACUITE A3+   Assigned
Indian Bank	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A3+   Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A3+   Assigned
South Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3+   Assigned
Central Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE A3+   Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A3+   Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.21	ACUITE A3+   Assigned
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.64	ACUITE A3+   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	21.06	ACUITE BBB   Stable   Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.33	ACUITE BBB   Stable   Assigned
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.89	ACUITE BBB   Stable   Assigned
Union Bank	Not	Term Loan	Not	Not	Not	Simple	1.53	ACUITE BBB

of India	Applicable		available	available	available			Stable
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.90	Assigned ACUITE BBB   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	5.00	Assigned ACUITE BBB   Stable   Assigned
Indian Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	5.00	Assigned ACUITE BBB   Stable   Assigned
South Indian Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	3.00	Assigned ACUITE BBB   Stable   Assigned



## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Gnanreddy Rakesh Reddy Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:rakesh.reddy@acuite.in">rakesh.reddy@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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