

Press Release

Dhakshan Textiles Private Limited

September 21, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.50	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	5.50	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) and its Short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.50.00 Cr bank facilities of Dhakshan Textiles Private Limited (DTPL; part of KKP group). The outlook is '**Stable**'.

The rating takes into account the extensive experience of the promoters, long track record of operations and moderate financial risk profile of the KKP group. The rating is constrained by intense competition, volatility in raw material prices and moderate intensive working capital operations of the group.

About Company

Dhakshan Textiles Private Limited (DTPL) was incorporated in 2019. It has its registered office in Namakkal, Tamil Nadu. DTPL which is located in Virali was one of the two units of KKP textiles Private Limited. Later on April 6, 2022 DTPL was demerged as per the directions and approval of NCLT Chennai Bench. Promoters has been maintaining separate records for DTPL since 2018. The company is into yarn manufacturing of 20s -80s counts with 27,000 spindle capacity. Directors of Dhakshan Textiles Private Limited are Mr. Nallathambi Subash Kumar, Mr. Nallathambi Sathesh Kumar, Mr. Bakkialakshmi Nallathambi and Mr. Periasamy Nallathambi.

About the Group

KKP group consists of KKP spinning mills Private Limited, KKP Fine linen Private Limited, KKP garments Private Limited, KKP Hi-tech India Private Limited, KKP Weaving and Processing mills Private Limited and KKP Textiles Private Limited. The group was earlier managed by two brothers Mr. Periaswamy Nallathambi and Mr. Periaswamy Chinnaswamy (Owns KKP Textiles Private Limited). KKP textiles Private Limited had two units in Virali and Pudhupatti. The Virali unit which was demerged effective April 06, 2022 and now named as 'Dhakshan textiles Private Limited' managed by Mr. N Sathish Kumar and Mr. Subhash Kumar, sons of Mr. Periaswamy Nallathambi. Other unit which is in Pudhupatti is managed by Mr. Periaswamy

Chinnaswamy. All the Companies in the group except KKP Textiles are managed by Mr. Nallathambi and Sons. The group is vertically integrated from spinning of yarn to garment production, which includes purchase of cotton and viscose from various suppliers to production fabrics and textiles. The entire Group has capacity of 68,000 spindles , 350 Looms, windmills which can generate 6.5 MW of power and 600 Stitching Machines. While, DTPL alone has 28,000 spindles capacity and 1.25 MW of power capacity.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered Consolidated approach to arrive at the rating. The reasons for the consolidation are . The Group is Fully integrated, Significant amount intercompany transactions (Purchase and sales, Payables and Receivables), Common Promoters for all the companies in the group.

Key Rating Drivers

Strengths

Established track record of operations:

The group established its first company KKP Weaving and spinning mills in 1983. The promoters later expanded into other activities of spinning, weaving, knitting, Stitching and production of grey fabrics. The promoters of the group has experience of more than 2 decades.

Fully integrated group:

The group is vertically integrated this includes spinning of yarn to production of garments and Madeups. DTPL involves in purchase of cotton and viscose from various suppliers and production of compact yarn to their group companies. The Group has 68,000 spindle capacity, 350 looms, 6.5 M.W of windmills and 600 Stitching machines. This captive consumption will ensure the better margins and provides the flexibility of production as per customer desire and gives competitive edge over other players in the industry. Acuite believes that integration will continue ensure improved margins over the medium term.

Improved operations in FY22 resulting significant growth in revenue:

KKP group registered significant growth in FY22 as the group on consolidate basis generated Rs.743.85Cr compared to Rs.648.17Cr in FY21. The factors contributing the growth are increased yarn sales, realisation rate and increased capacity utilization. KKP spinning Mills Private Limited (KSMPL) contributes major growth in revenue of the group. KSMPL on standalone basis reported Rs.641.49Cr of revenue for FY22 (Including Intercompany transactions). In FY22, there was a capex undertaken for setting up solar power plant and modernization of machineries, which is expected to have positive impact on the EBITDA margins from FY23. The Solar plant will have the capacity to produce 3.5 MW of electricity. The EBITDA and PAT for FY22 (Provisionals) stood at 9.94 percent and 3.13 percent respectively. Acuite believes that operations of KKP group will improve in the medium term.

Moderate financial risk profile:

KKP group's gearing is healthy at 1.20 times as on March 31, 2022 (Provisionals) against 1.08 times as on March 31, 2021. Group's Net worth is comfortable at Rs.287.83Cr as on March 31, 2022(Provisional) against Rs.260.58Cr for previous year. Net worth increased by Rs.27Cr on account of healthy accretions of net profit in the reserves. Total outside liabilities to total tangible net worth (TOL/TNW) stood healthy as on March 31, 2022(Provisionals) at 1.39 times against 1.36 times in previous year. Debt protection metrics of the group are moderate

marked by interest coverage ratio, Debt service coverage ratio and Net cash accruals to total debt (NCA/TD) of 2.62 times, 1.58 times and 0.12 times, respectively as on March 31, 2022 (Provisionals) against 2.16 times, 1.66 times and 0.10 times as on March 31, 2021. Debt/EBITDA of the group stood high at 4.54 times as on March 31, 2022. Acuite believes that the financial risk profile of the company will improve over the medium term.

Weaknesses

Moderate working capital cycle

KKP Group's working capital operations are moderate as evident from Gross Current Assets days of (GCA) of 246 days as on March 31, 2022 (Provisionals) against 265 days as on March 31, 2021. Debtor days Improved to 93 days as on March 31, 2022 (Provisionals) from 116 days in March 31, 2021. Inventory days stood at 144 days as on March 31, 2022 (Provisionals). Acuite believes that working capital operations of the group will improve over the medium term on account of timely receipts from debtors.

Intense competition in the textile industry and Susceptibility to changes in raw materials :

The group operates in a highly competitive textile industry, characterised by minimal product differentiation and fragmented nature, which restricts pricing flexibility. Indian textile products face stiff competition due to the products from other countries like Bangladesh, Pakistan, Vietnam, etc in the export market. The main raw material purchased by the company is cotton. Hence, the margins are susceptible to changes in cotton prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro climatic conditions. The purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. Acuite believes that KKP group will be able to maintain its operating margins around existing levels in spite of volatility in raw material prices.

Rating Sensitivities

- Improvement in working capital cycle
- Any further deterioration in working capital management leading to deterioration in financial risk profile

Material Covenants

None

Liquidity : Adequate

Group has adequate NCA of Rs.40.50Cr in FY22(Provisionals) against debt repayment obligation of Rs.14.96Cr. The group is expected to generate adequate NCA's in the range of Rs.50Cr to Rs.65Cr with repayment obligations of Rs.25.00Cr-28.5Cr in the medium term. Unencumbered cash and bank balances stood moderate at Rs.1.92Cr as on March 31, 2022 (Provisionals) with current ratio of 1.69 times. Acuite Believes that the group's liquidity will remain stable over the medium term.

Outlook: Stable

Acuite believes that KKP Group will maintain a 'stable' outlook and will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in total operating income and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial

risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	743.85	648.17
PAT	Rs. Cr.	23.25	14.73
PAT Margin	(%)	3.13	2.27
Total Debt/Tangible Net Worth	Times	1.20	1.08
PBDIT/Interest	Times	2.62	2.16

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

Not available

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A2 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	29.50	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE BBB Stable Assigned

State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.50	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	6.13	ACUITE BBB Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.32	ACUITE BBB Stable Assigned

- GECL of Rs.4.32 Cr and Rs.3.50Cr are referred as Term loan.

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About Acuité Ratings & Research

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