Press Release

DHAKSHAN TEXTILES PRIVATE LIMITED

August 07, 2023

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.00	ACUITE BBB | Stable | Assigned	-
Bank Loan Ratings	44.50	ACUITE BBB | Stable | Reaffirmed	-
Bank Loan Ratings	5.50	-	ACUITE A2 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	78.00	-	-

Rating Rationale

Acuité has reaffirmed 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**'.

Acuité has assigned its long-term rating of **'ACUITE BBB ' (read as ACUITE Triple B)** on additional Rs.28.00 Cr bank facilities of Dhakshan Textiles Private Limited (DTPL; part of KKP group). The outlook is '**Stable**'.

Rationale for rating reaffirmation:

The rating reaffirmation factors in the improved operating performance of KKP group marked by improved revenue, operating margins. The group's revenue stood at Rs.781.91Cr as per FY23 Estimates against Rs.741.53Cr during previous year. The operating margin improved to 11.13 percent during FY23 (Estimates) from 9.96 percent of previous year. The financial risk profile of the group continues to be moderate with moderate capital structure and debt protection metrics. The group has incurred capex of Rs.54Cr during FY23 towards modernization of machinery which is expected to have positive impact on the operating margins of the group from FY24 onwards. The ratings are however, constrained by intensive working capital operations, Intense competition in the industry and susceptibilty of margins to changes in raw material prices. Going forward the group's ability to sustain the growth in the operating revenue and profitability margins while improving its working capital operations will be a key monitorable.

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 mangaed 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 business and financial risk profile of Dhakshan textiles Private Limited (DTPL), KKP Spinning Mills Pvt Ltd (KSMPL), KKP Weaving & Processing Mills Pvt Ltd (KWPMPL), KKP Hi-tech Pvt Ltd (KHPL), KKP garments Pvt Ltd (KGPL), hereafter referred as "KKP Group" on account of common promoters, vertically integrated group with strong operational linkages and significant amount of intercompany transactions.

Key Rating Drivers

Strengths

Experienced promoters and 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. 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 the group will continue to benefit from its long track of operations and the rich experience of the management.

Continued growth in operating income and margin during FY23:
KKP group has shown growth in its operations during FY23, as per the estimates till March 31, 2023 the group has reported consolidated revenue of Rs.781.91Cr for the year as against Rs.741.53Cr of previous year. EBITDA margin improved to 11.13 percent as per FY23 YTD figures against 9.96 percent during previous year. The growth in revenue is driven by volume growth coupled by better realisations in fabric segment. Apart from the production of fabrics the group also involved in trading of fabrics during the year which contributed around 10 percent of the total revenue. The raw material prices have been settling down from Q2FY23 which resulted in low realisations and inventory loss due to price drop in yarn segment. However, good realisation rates for fabrics throughout the year has helped in sustaining the growth in revenue for FY23. The growth in EBITDA margin is attributable to the benefits from capital expenditure. The group had incurred capital expenditure of ~Rs.64Cr during FY22 for

modernization of machinery and installation of solar power of 1.20 Mega Watt (MW) which has improved overall productiivity of the group resulting in better margins. Further, the group had incurred additional capital expense towards its machineries of Rs.54 Cr in FY23 which is expected to further improve margins FY24 onwards. Acuite believes that the group's presence in entire value chain and capex towards modernization of capacity will help in acheiving similar levels of operating income and profitablity in the medium term.

Moderate financial risk profile:
Financial risk profile of the group is mopderate as observed from the net worth position, capital structure and moderate coverage indicators. The net worth improved to Rs.277.84 Cr as on March 31, 2023 (Est.) as against Rs.238.54Cr during FY22, the growth is mainly due to accretion of profits to reserves. On account of demerger there was a reduction in Quasi equity of Rs.42.05Cr which led to decrease in net worth to Rs.238.54Cr during FY22 from Rs.260.58Cr of FY21. The gearing of group has deteriorated to 1.46 times March 31, 2022 against 1.08 times during previous year. The deterioration was on account of debt funded capex. As per FY23 (Est.) the gearing ratio continued to be 1.45 times due to further infusion of debts. Further to this, the total outside liabilities to net worth was at 1.68 times as on March 31, 2023 (Est.) as against 1.78 times in previous year. The coverage indicators were adequate with DSCR of 1.36 times as on March 31st 2023 (Est.) as against 1.50 times as on March 31st 2022. Interest coverage stood at 2.95 times as on March 31st 2023(Est.) as against 2.63 times as on March 31st 2022. Debt to EBITDA has marginally improved to 4.39 times as per FY23 (Est.) from 4.56 times during previous year. Acuite believes that financial risk profile of the group will improve in the medium term in absence of debt funded capex plans.

Weaknesses

Intensive working capital operations:
Working capital operations of the group are intensive which is reflected by the Gross current assets days ranging between 250-260 days during past 3 years. As per FY23 YTD figures GCA days stood at 258 days against 241 days during previous year. The debtor days stood at 91 days for FY23 estimates. Generally, the group allows a credit period of 60-90 days to its customers. The group maintains raw material inventory for 6 months and finished goods inventory for 30-40 days. The group's creditor days were ranging between 30-40 days during past 3 years which has led to increased dependency on its fund based working capital limits. The fund based limits were utilised at an average of 92 percent during past 12 months ending May 2023. Acuite believes that working capital operations of the group will remain moderately intensive on account of high inventory levels and low creditor days.

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 able to maintain its operating margins around existing levels in spite of volatility in raw material prices.

Rating Sensitivities

- Suatained growth in operating income while maintaining operating margins in current level.
- Any further deterioration in working capital management leading to deterioration in financial risk profile.

- Any debt funded capex resulting in deterioration in financial risk profile.

Material Covenants
None

Liquidity Position: Adequate

The group has adequate liquidity which is evident from sufficient net cash accruals (NCA) against debt repayment obligations. The group has reported NCA's of Rs.49.17Cr on March 31, 2023 (Est.) against debt repayment obligations of Rs.28.00Cr. The group is expected to report NCA's in the range of Rs.52-60Cr in the medium term against debt repayment range of Rs.30Cr – 32Cr.

The unencumbered cash and bank balances stood at Rs.1.82Cr as on March 31, 2023 (Est.). The average working capital limits were highly utilized in the range of 88-92 percent during the past 12 months ending May, 2023 on account of intensive working capital operations. Acuite believes that liquidity position of the company will remain adequate in the medium term on account of sufficient NCA against repayment accruals and improving current ratio.

Outlook: Stable

Acuité believes that KKP Group/ Dhakshan textiles private limited 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 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	741.53	648.17
PAT	Rs. Cr.	19.99	14.73
PAT Margin	(%)	2.70	2.27
Total Debt/Tangible Net Worth	Times	1.46	1.08
PBDIT/Interest	Times	2.63	2.16

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

None

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Complexity Level Of Financial Instruments: https://www.acuite.in/view-rating-criteria-55.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

In order to inform the investors about complexity of instruments, Acuité 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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Sep 2022	Term Loan	Long Term	4.32	ACUITE BBB | Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BBB | Stable (Assigned)
	Term Loan	Long Term	6.13	ACUITE BBB | Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A2 (Assigned)
	Cash Credit	Long Term	29.50	ACUITE BBB | Stable (Assigned)
	Proposed Bank Facility	Long Term	1.05	ACUITE BBB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A2 | Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	29.50	ACUITE BBB | Stable | Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE BBB | Stable | Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2 | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.81	ACUITE BBB | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BBB | Stable | Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.50	ACUITE BBB | Stable | Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	9.69	ACUITE BBB | Stable | Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	24.00	ACUITE BBB | Stable | Assigned

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

- KKP Spinning Mills Private Limited
- KKP Fine Linen Private Limited
- KKP Garments Private Limited
- KKP Hi-Tech India Private imited
- KKP Weaving and Processing Mills Private Limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.