



Press Release
Dhakshan Textiles Private Limited
November 04, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	72.50	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	5.50	-	ACUITE A2+ Upgraded
Total Outstanding Quantum (Rs. Cr)	78.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to 'ACUITE BBB+' (read as ACUITE triple B plus) from 'ACUITE BBB' (read as ACUITE Triple B) and its short-term rating to 'ACUITE A2+' (read as ACUITE A two plus) from 'ACUITE A2' (read as ACUITE A two) on the Rs.78.00 Cr. bank facilities of Dhakshan Textiles Private Limited (DTPL; part of KKP group). The outlook is 'Stable'.

Rationale for rating upgrade:

The rating upgrade considers, the improvement in operating profit margin, despite a lower revenue growth due to a change in product mix and the expectation of sustained growth in operating profit for the current year. The trading revenue dropped by 51 percent during FY2024 (Prov.), due to change in product mix, resulting in muted growth in revenue at Rs.803.38 Cr. for the year. However, the group registered revenue of Rs.444 Cr. during the first half of FY2025, thereby promising a decent revenue growth for the year with the presence of order book worth Rs.226 Cr. for next 3 months.

The operating profits of the group over the past three years have improved significantly at a compounded annual growth rate of 17.6 percent, despite of unfavourable market conditions. The improvement in operating profits is mainly due to the benefits from the integrated supply chain coupled by lower trading activity. The rating also draws comfort from the above average financial risk profile and adequate liquidity position of the company, although constrained by the intensive nature of working capital operations.

About the 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 have been maintaining separate records for DTPL since 2018. The company is into yarn manufacturing of 20s -80s counts with 28,000 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 Weaving 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 , 438 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.

Unsupported Rating

Not applicable

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 Private Limited (KSMPL), KKP Weaving and Processing Mills Private Limited (KWPMPL), KKP Hi-Tech Weaving India Private Limited (KHPL), KKP Garments Private Limited (KGPL) and KKP Fine linen Private Limited (KFLP) 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.

Improved operating margins albeit low revenue growth led by change in product mix.

In FY2024, KKP group registered a revenue of Rs.803.38 Cr, marginally improved from FY2023 revenue of Rs.799.75 Cr, despite of lower trading activity. The group changed its product mix with a view to reduce the trading in spinning and weaving segments. Consequently, the trading revenue dropped by 51 percent, from Rs.245 Cr. in FY2023 to ~Rs.120 Cr. in FY2024. The operating profit margins improved to 14.95 percent in FY2024 (Prov) from 11.75 percent in FY2023, due to lower trading activity coupled by benefits of integrated operations. Additionally, the group registered revenue Rs.444.20 Cr. (net off intercompany transactions) till September 2024 and expected to close the year in the range of Rs.850-870 Cr, as the group currently has order book for three months which is approximately Rs226 Cr. The operating profit margin is expected to remain in the range of 14-15 percent for the medium term due to favourable market conditions and further supported by benefits from integrated operations. The PAT margin improved to 4.09 percent in FY2024 (Prov.) from 2.70 percent in FY2023, despite of increased interest costs and depreciation, primarily due to substantial improvement in operating profit for the year.

Above average financial risk profile:

KKP group's financial risk profile is above average marked by healthy network, moderate gearing and moderate debt protection metrics. As on March 31, 2024 (Prov.), the group's network stood at Rs.318.44 Cr. compared to, Rs.280.49 Cr. The improvement in network is due to accretion of profits to the reserves. Despite a marginal increase in overall debt levels to Rs.448.06 Cr. as on March 31, 2024(Prov.) from Rs.430.33 Cr. as on March 31, 2023, gearing levels remained comfortable at 1.41times as on March 31, 2024 (Prov.). Additionally, the total outside liabilities to tangible network (TOL/TNW) also improved marginally to 1.70 times as on March 31, 2024(Prov.) against 1.81 times as on March 31, 2023. The gearing of the company is expected to improve further over the medium term on account of absence of any debt funded capex plans. The debt protection metrics stood moderate with DSCR and ICR of 1.31 times and 2.54 times respectively as on March 31, 2024(Prov.). Debt to

EBITDA also improved to 3.63 times as on March 31, 2024(Prov.) against 4.49 times as on March 31, 2023. Acuite believes that the financial risk profile of the company will improve further over the medium term due to its conservative leverage policy.

Weaknesses

Working capital intensive nature of operations:

KKP group's working capital operations are intensive in nature as reflected through its gross current asset (GCA) days of 278 days in FY2024 (Prov.) against 261 days in FY2023. The stretched GCA days are mainly on account of higher inventory levels and stretched debtor days. The high inventory levels are common across the industry as the raw material i.e. cotton generally is procured during the season of October to March and will be stocked up to meet the inventory requirements for next 5-6 months. This has led to high inventory days at 162 days in FY2024 (Prov.). The group offers a credit period of 60-90 days its customers and enjoys a credit period of 45-60 days from its suppliers. The elongated working capital conversion cycle has led to high dependency on the fund based working capital limits, which were utilized at an average of 90 percent in past 12 months ending September 2024. Acuite expects, the working capital operations of the group to remain intensive over the medium term on account of business cycle of the industry.

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 owing to the benefits of integrated operations.

Rating Sensitivities

Positive:

- Maintaining the operating profit margins at current levels.
- Significant improvement in operating revenue.
- Improvement in financial risk profile.

Negative:

- Any further deterioration in working capital management leading to deterioration in liquidity.
- Any debt funded capex resulting in deterioration in financial risk profile.

Liquidity position: Adequate

KKP group's liquidity position is adequate as reflected through sufficient net cash accruals against the repayment obligations. The group registered NCA's of Rs.63.67 Cr. as on March 31, 2024 (Prov.), comfortably covering the debt obligation of Rs.37.15 Cr. for the same period. NCA's are expected to range between Rs.70-75 Cr. over the medium term which would comfortably meet the expected repayment range of Rs.35-42 Cr. The group's current ratio stood moderate at 1.45 times as on March 31, 2024 (Prov.) and the GCA days remained intensive at 278 days in FY2024. The fund based bank limits were utilized at an average of 90 percent during the past 12 months ending September, 2024. Additionally, the group has Rs.2.33 Cr. in free cash and bank balances providing additional liquidity comfort. Acuite believes that the liquidity position of the group will remain adequate over the medium term on account of sufficient cash accruals against repayment obligations.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	803.38	799.75
PAT	Rs. Cr.	32.87	21.58
PAT Margin	(%)	4.09	2.70
Total Debt/Tangible Net Worth	Times	1.41	1.53
PBDIT/Interest	Times	2.54	2.27

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

Not applicable

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
07 Aug 2023	Term Loan	Long Term	9.69	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	1.81	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	24.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	29.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	3.50	ACUITE BBB Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.50	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)
21 Sep 2022	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	29.50	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	6.13	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	4.32	ACUITE BBB Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	1.05	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BBB Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.50	Simple	ACUITE A2+ Upgraded (from ACUITE A2)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	29.50	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.50	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE A2+ Upgraded (from ACUITE A2)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.31	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2027	3.50	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2027	24.00	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 May 2025	9.69	Simple	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)

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

Sr. No	Name of the companies
1	Dhakshan Textiles Private Limited
2	KKP Spinning Mills Private Limited
3	KKP Weaving and Processing Mills Private Limited
4	KKP Hi-Tech Weaving India Private Limited
5	KKP Garments Private Limited
6	KKP Fine Linen Private Limited

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About Acuité Ratings & Research

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