K K Silk Mills Limited

May 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	52.50 (Enhanced from 45.24)	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable;

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to bank facilities of K K Silk Mills Limited (KKSM) derives strength from experience of promoters in textile industry and recovery in the revenue profile of the company to pre-covid levels in FY23. However, the ratings are tempered by working capital-intensive nature of operations, leveraged capital structure with moderate debt coverage indicators, Rating also factors in concentrated customer base, susceptible to fluctuations in raw material prices and presence in fragmented & competitive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in leverage indicators with Total Debt/PBILDT falling below 3.00x on a sustained basis.
- Improvement in scale of operations above Rs.250 crores while maintaining profitability.

Negative factors

- Elongation in operating cycle leading to total debt/PBILDT remaining above 5.00x

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects the overall performance of the company to continue satisfactorily in the coming years.

Detailed description of the key rating drivers:

Key weaknesses

Leveraged capital structure with moderate debt coverage indicators

KKSM has a leveraged capital structure which is reflected by high TOI/TNW which stood above 2x in FY22. Company's Debt/PBILDT stood at 5.37x in FY22. Debt levels are eleveated on account of working capital intensive operations. Further, on account of low profitability, company's debt coverage indicators remain moderate. KKSM's interest coverage stood at 1.73x for FY22 against 1.17x for FY21.

Working capital intensive nature of operations

KKSM's operations continue to remain working capital intensive with operating cycle at 117 days as on March 31, 2022 as majority of the funds are blocked in inventory. KKSM offers credit period of 90 days and maintains inventory for 50-60 days, majorly for finished fabrics. Further, it enjoys credit period of 45-60 days from its suppliers, mainly for yarn. The company's average working capital utilization remains high above 95% for 12-month period ending in March- 2023.

Concentrated customer base

KKSM's customers are majorly small-scale firms with long standing relationship. However, the company has added Reliance Retail Limited as a customer during FY20 whose contribution to the company's total revenue has increased significantly from 3% in FY20 to 15% in FY23. KKSM's top 5 customers contributed more than 70% to the total revenue as on March 31, 2023 vis-à-vis 31% as on March 31, 2020. Hence, KKSM is susceptible to customer concentration risk.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Susceptible to fluctuations in raw material prices
The major raw materials consumed are cotton and polyester. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing, etc. Further, polyester prices are derivate of crude oil prices. As a result, the company remains exposed to raw material movement and may have to absorb any adverse fluctuation in raw material prices.

Limited presence in fragmented and highly competitive industry
Fabric processing and garment manufacturing segment in textile industry are highly fragmented with large number of small, unorganised players across geography as well as large established players. Further, trading remains key part of KKSM's business operation with low profitability margins. Therefore, KKSM is constrained by pricing pressure from competitors and putting pressure on company's profitability margins.

Key strengths

Experienced Promoters with demonstrated track record in textile industry
KKSM was promoted by Lt. Mr. Kantilal B. Shah in 1991. Presently, Mr. Manish Shah and Mr. Nilesh Shah oversees operations of the company. Mr. Manish Shah has experience of more than 20 years in textile industry and looks after company's marketing and financing activities. He is well supported by Mr. Nilesh Shah in factory operations, who has experience of 15 years in the industry. Over the years, KKSM has established its presence in domestic market under brand name SENETOR for fabrics and ALBERNI for shirting. Apart from manufacturing fabrics, KKSM also undertakes job work and trading activities.

Recovery in scale of operations to pre-covid levels in FY23
During FY22, KKSM's revenue recovered to pre-covid levels after a significant decline during FY21. The total operating income improved from Rs.78.40 crore in FY21 to Rs.172.37 crore in FY22. This improvement was on account of revival in the demand for textile industry. The revenue marginally improved further to Rs.186.78 crore during FY23. However, the operating margin in FY22 declined to 4.81% vis-à-vis 7.76% in FY21 as the company was unable to pass on fluctuation in raw material prices during the period. Further, this led to decline in PAT margin which stood at 0.27% as on March 31, 2022. Going forward, improvement in profitability margins will be a key monitoring factor.

Liquidity: Stretched

KKSM's liquidity profile continues to remain stretched with modest cash and bank balance of Rs.0.17 crore and current ratio at 1.36x as on March 31, 2022. The company's working capital limits remains almost fully utilized for past 12 months period ending March 2023, providing little cushion to liquidity profile. Further, KKSM has original debt repayment obligations of Rs. 3.50 crore for FY24 against expected cash accruals of Rs.3.55 crore.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Cotton Textile
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Garments & Apparels

Incorporated in 1991, K K Silk Mills Private Limited was promoted by Lt. Mr. Kantilal B. Shah and subsequently converted to K K Silk Mills Limited (KKSM) in year 2003. Currently, KKSM is run by Mr. Manish Shah, son of Mr. Kantilal Shah. The company is primarily into business of manufacturing and trading of cotton as well as synthetic shirting fabrics. KKSM has installed capacity of 96 lakh meters per year for cotton fabric and 12 lakh pieces per year for garment manufacturing at its plant in Umbergaon, Gujarat. The company's operations are divided into four different verticals viz. trading of finished fabrics, manufacturing of cotton and blended fabrics, job work for upholstery/furnishing fabrics and garment manufacturing. KKSM sells fabric under its own brand 'SENETOR' for fabrics and 'ALBERNI' for shirting. KKSM's garment manufacturing and trading is under separate division named Krizz Retail, which manufacturers 50% of its demand in-house and balance is outsourced.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	78.40	172.37	186.78
PBILDT	6.09	8.29	NA
PAT	0.33	0.46	NA
Overall gearing (times)	1.59	1.40	NA
Interest coverage (times)	1.17	1.73	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	52.50	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	52.50	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (12-Jul-22)	1)CARE BB; Stable (22-Jun-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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