

K K Silk Mills Limited

June 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	45.24	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Total Bank Facilities	45.24 (Rs. Forty-Five Crore and Twenty-Four Lakhs Only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to K K Silk Mills Limited (KKSM) derives strength from experience of promoters in textile industry, improvement in scale of operations over last 4 years (FY17-FY20) and diversified customers and supplier base. However, ratings are tempered by the working capital-intensive nature of operations, leveraged capital structure, susceptible to fluctuations in raw material prices and presence in fragmented & competitive industry. The rating assigned to KKSM also factors in impact of COVID-19 on business operations of the company in FY21.

Rating Sensitivity

Positive Factors:

- Improvement in PBILDT margin above 8% on sustainable basis.
- Improvement in capital structure with overall gearing below 0.50x.

Negative Factors:

- Elongation in operating cycle beyond 140 days.
- Deterioration in capital structure with increase in overall gearing above 2.00x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with demonstrated track record in textile industry

K K Silk Mills Ltd. (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 13 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.

Improvement in scale of operations; albeit moderation in profitability margins during FY16-FY20

KKSM's total income grew with CAGR of 8.3% for the period FY16-FY20 and stood at Rs.179 crore for FY20. KKSM's income from trading activity grew with CAGR of 13.67% while income from manufacturing grew with CAGR of 5.7%. However, trading being a low margin activity, KKSM's overall profitability declined marginally over the years. PBILDT margins in trading remains in the range of 2.5% to 3% while margins from manufacturing remains in the range of 6%-7%. As per the management, trading activity helps the company to establish network of distributors and later on push their own products through this network. Trading is primarily for suiting fabrics. Income from job work contributes around 10% in total income. Job work is relatively high margin process for KKSM as it manufactures fabrics for other players who sell under their own brand name. Further, price volatility in raw materials continues to affect KKSM's profitability margins. Consequently, overall margins declined moderately to 5.08% in FY20 from 6.16% in FY17. Further, PAT margins continue to be under pressure on account of higher interest costs on borrowings. PAT margin remains low in the range of 0.7%-1.1% during FY16-FY20 period. During FY21, the company has sustained negative impact due to COVID-19 pandemic. KKSM has registered sales of Rs.85 crore with estimated PBILDT of Rs.7.7 crore. KKSM's average capacity utilization remains around 90% and produces more than 9 lakh pieces every year.

Diversified client and supplier base

KKSM's customer base remains moderately diversified with top 5 customers contributing 31% in total sales. The company's customers are majorly small-scale firms with long standing relationship with KKSM. KKSM has also added Reliance Retail Limited as a customer during FY20. Similarly, KKSM's supplier base fairly diversified with top 5 suppliers contributing 30% of total purchases in FY20. Therefore, customer and supplier concentration risk remain modest.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

Working capital intensive nature of operation

KKSM's operations remains working capital intensive with operating cycle around 90-95 days. 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. During FY20, KKSM's inventory period increased significantly due to lockdown imposed by the government in March, 2020. The company's average working capital utilization remains high at 99% for 12-month period ending in April, 2021. Majority of funds are blocked in to working capital as the operating cycle deteriorated due to COVID-19 pandemic. However, KKSM has already realised total debtors of Rs.23 crore by June 10, 2021, much earlier than anticipated by the management. This has resulted in availability of liquidity with the company for near term and lower dependence on working capital borrowings.

Leveraged capital structure with moderate debt coverage indicators

KKSM's capital structure remains leveraged with overall gearing of 1.66x as on March 31, 2020 and has remained flat over last 3 year as the company has undertaken debt-funded capex for period FY18-20. KKSM's debt profile is heavily influenced by its working capital-intensive nature of operations, which remain almost fully utilized. Further, on account of low profitability, company's debt coverage indicators remain moderate. KKSM's interest coverage stood at 1.73x for FY20 while Total debt to gross cash accruals stood at 13.47x as on March 31, 2020. Total debt to cash accruals remained flat over last 3 years and stood at 4.56x in FY20. However, total debt to cash flow from operations ratio deteriorated from 7.66x in FY18 to 11.12x in FY20 as working capital requirement remains high.

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. KKSM's gross margin deteriorated from 15% in FY18 to 12.75% in FY20 on account of increase 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.

Impact of first and second wave of COVID-19 pandemic

As per government's directive, the company had closed its plant operations from March 24, 2020 till May, 2020. The company has started operating at partial capacity from second week of May, 2020 and gradually increased as per local government's guidelines by Sept-20. Post resuming operations, KKSM has seen marginal growth in demand on monthly basis. During H1FY21, the company was facing issues in collections and majority of their funds were blocked in working capital (Inventory and debtors). During H2FY21, KKSM has clocked plant utilization at 70-75%. For FY21, the company has registered sales of Rs.85 crore with estimated PBILDT of Rs.7.73 crore. To tackle liquidity stress during lockdown period, the company had availed moratorium (Mar-20 to Aug-20) as per RBI's regulatory package. Further, the company has availed ECLGS loan of Rs.7.4 crore to maintain liquidity and meet operational expenditure of the company. During second wave of COVID-19 pandemic, KKSM has not closed plant operations but operates at around 60-70%. The company has not taken any drastic cost cutting measures and expects demand uptick in near term.

Liquidity: Adequate

KKSM's liquidity profile remains stretched with modest cash and bank balance of Rs. 0.54 crore and current ratio at 1.43x as on March 31, 2021. The company's working capital limits remains almost fully utilized during April-2020 to April-2021, providing little cushion to liquidity profile. Further, KKSM has original debt repayment obligations of Rs. 3.43 crore for FY22 against expected cash accruals of Rs.4.72 crore. As per the management, KKSM has Rs.3.5-4 crore as unutilized bank limits, unencumbered cash and equivalents as on June 2, 2021. The company has already realized all debtors outstanding as on March 31, 2021 of amount Rs.23 crore. Considering above, KKSM's liquidity is adequate to meet its near-term obligations.

Analytical approach: Standalone

Applicable Criteria

[CARE's policy on Default recognition](#)

[Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings](#)

[Rating methodology – Cotton textile industry](#)

[Financials Ratio - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company:

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 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'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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	181.20	179.81
PBILDT	9.65	9.13
PAT	1.58	1.40
Overall gearing (times)	1.69	1.66
Interest coverage (times)	1.88	1.73

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	45.24	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-Long Term	LT	45.24	CARE BB; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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