KG Petrochem Limited

September 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	46.15 (Reduced from 63.55)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	73.25	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	15.75 (Reduced from 16.25)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**135.15 (Rs. One Hundred Thirty-Five Crore and Fifteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of KG Petrochem Limited (KGPL) continue to derive strength from the vast experience of the promoters in terry towel segment of textile industry along with established track record of operations and repeat orders from reputed clientele, moderate scale of operations as well as healthy profitability, moderate debt coverage indicators and adequate liquidity despite an elongated operating cycle.

The ratings, however, continue to remain constrained on account of its leveraged capital structure, slow ramp up of operations in artificial leather business and concentrated customer as well as geographical revenue profile. The ratings are further constrained on account of inherent cyclicality associated with textile industry and vulnerability of profitability to the fluctuation in raw material prices as well as foreign currency exchange rate, though with presence of prudent hedging mechanism.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in Total Operating Income (TOI) beyond Rs.400 crore through greater geographical diversification and ramp in operations of artificial leather unit, on a sustained basis
- Maintenance of PBILDT margin around 14% and above
- Improvement in capital structure marked by overall gearing below unity

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in TOI below Rs.250 crore or decline in PBILDT margin below 10% on a sustained basis
- Moderation in capital structure above 1.50x along with moderation in debt coverage indicators
- Elongation of working capital cycle beyond 180 days on sustained basis.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Experienced promoters in the textile industry

KGPL is promoted by Mr. G. S. Kandoi, a Mechanical Engineer from BITS Pilani having vast experience of more than five decades. Mr. Manish Singhal, an IIT graduate and presently Managing Director, is the son of Mr. G. S. Kandoi and has industry experience of more than 2 decades. Apart from executive directors, the Board of Directors also consists of three independent directors and one additional independent director as well as experienced professionals at various levels.

Established track record of operations along with moderate scale of operations and healthy profitability

KGPL operates in two segments, i.e., manufacturing of terry towels/made ups & artificial leather and as a consignment stockist of GAIL (India) Limited for polymers for Rajasthan region. It has established operations of more than 20 years in the terry towels & made ups segment with this segment contributing more than ~85% of its TOI over the past 3 years.

KGPL's TOI, over the last 10 years grew at Compound Annual Growth Rate (CAGR)of ~14% and continued to remain moderate at Rs.360.51 crore in FY22 (Rs.301.21 cr. in FY21). TOI increased by 20% on y-o-y basis in FY22 driven by growth in sales volume in terry towel segment with recovery in demand after covid-19 pandemic, while sales realization remained largely stable. Also, export incentive income was higher in FY22 with delayed recognition of income of Rs.8.32 crore in Q1FY22 instead of Q4FY21. KGPL's operating profit (PBILDT) margin, though moderated to some extent due to higher raw material and freight cost, continued to remain healthy at 12.04% in FY22 (P.Y.13.50%).

Furthermore, in Q1FY23, KGPL's TOI remained stable at Rs.78.37 crore (Rs.79.84 crore in FY21) along with PBILDT margin of 14.99% (17.18% in FY21). While there was some impact in demand of terry towel in Q1FY23, lower sales volume was offset by increase in sales realization. Also, there was some traction in sales of artificial leather with sales of Rs.14.78 crore in Q1FY23 as against Rs.7.57 crore in Q1FY22.

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

Moderate debt coverage indicators
The debt coverage indicators of KGPL stood moderate, marked by total debt to GCA of 4.50 times (4.52 times in FY21) and PBILDT interest coverage at 5.39 times (5.38 times in FY21) in FY22.

Key rating weaknesses
Concentrated customer and geographical revenue profile albeit reputed clientele base
KGPL's terry towel and madeups business is almost entirely dependent on the export market i.e., primarily to USA and partially to Chile, South America. During FY22, KGPL generated ~76% of TOI from exports (80% of TOI in FY21). In addition, the customer profile of KGPL is highly concentrated with top-10 customers forming ~70% of TOI (73% of TOI in FY21) in FY22. However, its customer profile includes reputed retail chains such as Walmart Inc., Jay Franco & Sons etc. which largely insulates KGPL from any delay in collection. Any change in customer preference and/or political instability and economic slowdown in these markets could impact the operations of KGPL. However, KGPL has long established relationship with these clients which enables repeat business from them.

Leveraged capital structure
The capital structure of KGPL remained moderately leveraged with overall gearing of 1.28 times as on March 31, 2022, though improved from 1.41 times as on March 31, 2021, on account of accretion of profit to reserves. The Total Outside Liabilities / Networth ratio also continued to remain high at 1.87 times in FY22 (1.95 times in FY21).

Slow ramp up in artificial leather business
KGPL started manufacturing of artificial leather from second half of FY19, however over the last three - four years, the ramp up of operations of this segment remained subdued due to initial teething issue in FY20 and disruption of operations as well as subdued demand from end-user industries i.e., mainly footwear and automobile, in FY21 & FY22 due to Covid-19 pandemic. There has been some traction in sales of artificial leather from Q1FY23 onwards with sales of Rs.14.78 crore in Q1FY23 as against Rs.7.57 crore in Q1FY22 supported by pickup in demand from its key end-user industries.

Susceptibility of profitability to volatile raw material prices and forex fluctuation though the latter is largely mitigated through prudent hedging mechanism
Prices of raw cotton are volatile in nature and depend upon factors like area under production, yield for the year, international demand supply scenario, export quota decided by the government and inventory carry forward from the previous year. Also, the production of cotton in India is dependent upon the vagaries of the monsoon. Accordingly, any sharp adverse fluctuations in cotton prices may affect the profitability of KGPL. Further, KGPL earns large part of its revenue from exports, which exposes its profitability to volatility in forex rates. However, majority of forex risk is mitigated as KGPL hedges entire forex exposure through forward contracts.

Inherent cyclicality associated with the textile industry and impact of government regulations albeit stable demand prospects
Textile industry is a cyclical industry and closely follows the macroeconomic business cycles. Furthermore, the industry is highly competitive and fragmented in nature with presence of large established players as well as numerous small players. During FY21, demand was impacted due to outbreak of covid-19 pandemic, especially for apparel and made ups due to temporary closure of retail stores and shopping malls. While demand picked up to some extent in FY22, it was again impacted in current year, due to rise in cotton prices. Indian textile producers are presently witnessing some slowdown, especially for home textile products from major export destinations. Adding to demand challenge is the volatility in price of raw cotton, key input in home textiles. Any shift in macroeconomic environment globally would have an impact on the domestic textile industry. However, long-term demand is expected to remain stable driven by factors like increasing urbanization, changing lifestyle, fashion trends and consumer behaviour.
The Government of India (GoI) has extended various schemes to make Indian exporters competitive in international market. The GOI has recently extended the export benefits of Remission of State and Central Taxes Levies (RoSCTL) till March 31, 2024. Hence, KGPL's profitability is also expose to any change in incentive scheme roll out by the government from time to time.

Liquidity: Adequate
The company had adequate liquidity marked by cash flow from operations of Rs.6.72 crore in FY22, moderate average utilization of fund-based working capital limits at 83% for past 12 months ended June, 2022, and free cash and bank balance of Rs.6.88 crore as on March 31, 2022.
The business operations of KGPL are working capital intensive in nature marked by an elongated operating cycle of 133 days in FY22 (141 days in FY21). KGFL needs to maintain sufficient inventory to meet demand resulting in inventory period of 75 to 90 days. Also, as the revenue profile of KGPL is skewed towards last quarter of financial year, the debtors outstanding at financial year end remains high. However, KGPL's customer profile in the terry towel segment includes reputed player from large retail chains which reduces the risk of delayed collection. In the artificial leather segment, KGPL mainly supplies to domestic players wherein it has to offer extended credit period. As on March 31, 2022, KGPL had debtors outstanding for more than 6 months of Rs.8 crore, predominantly from the artificial leather segment. Timely recover of these debtors shall be crucial for KGPL's prospects. KGPL has scheduled repayment in the range of Rs.8-18 crore over the next 3 years, which is expected to be met comfortably from its envisaged cash accrual generation.

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies

About the company
Incorporated in 1980, Jaipur-based KGPL is promoted by Mr. G. S. Kandoi. KGPL is engaged in the manufacturing of terry towel and made up as well as artificial leather. KGPL also works as a consignment stockist of GAIL (India) Ltd. for polymers for Rajasthan under its agency division. Terry towel segment is the major revenue earner for the company, contributing ~86% of its TOI in FY22.
The manufacturing facility of KGPL is located at Tehsil Kotputli, near Jaipur, Rajasthan with an aggregate installed capacity of 6,200 Metric Tonne Per Annum (MTPA) for terry towel division and 100 lakh meters for Synthetic PU/PVC leather as on March 31, 2022, while agency division is operated from unit located at Vishwakarma Industrial (VKI) Area, Jaipur. The company's stitching unit is also located in VKI area, Jaipur.

Brief Financials (Rs. crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	301.21	360.51	78.37
PBILDT	40.66	43.40	11.75
PAT	15.68	17.44	4.39
Overall gearing (times)	1.41	1.28	NA
Interest coverage (times)	5.38	5.39	6.60

A: Audited, Prov.: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2027	45.15	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	1.00	CARE BBB; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	36.00	CARE BBB; Stable / CARE A3+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	37.25	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Bank Guarantee	-	-	-	5.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	10.75	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	45.15	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Nov-21)	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (25-Sep-19)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Nov-21)	1)CARE BBB; Stable (05-Oct-20)	1)CARE BBB; Stable (25-Sep-19)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	36.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)	1)CARE BBB; Stable / CARE A3+ (05-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	37.25	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)	1)CARE BBB; Stable / CARE A3+ (05-Oct-20)	1)CARE BBB; Stable / CARE A3+ (25-Sep-19)
5	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)Withdrawn (05-Oct-20)	1)CARE A3+ (25-Sep-19)
6	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (05-Oct-20)	1)CARE A3+ (25-Sep-19)
7	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A3+	-	1)CARE A3+ (01-Nov-21)	1)CARE A3+ (05-Oct-20)	1)CARE A3+ (25-Sep-19)
8	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (05-Oct-20)	1)CARE A3+ (25-Sep-19)
9	Fund-based - ST-EPC/PSC	ST	10.75	CARE A3+	-	1)CARE A3+ (01-Nov-21)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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