KG Petrochem Limited

November 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	63.55 (Reduced from 74.37)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	73.25 (Reduced from 84.00)	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Short Term Bank Facilities	10.75 #	CARE A3+ (A Three Plus)	Revised from CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable / A Three Plus)
Short Term Bank Facilities	5.50 (Enhanced from 4.70)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**153.05 (Rs. One Hundred Fifty-Three Crore and Five Lakhs Only)**		

#Reclassified from Long term / Short term to Short term
Details of facilities in Annexure-1

Detailed Rationale & 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, 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 and geographical revenue profile. The ratings further are constrained on account of inherent cyclicality associated with textile industry and vulnerability of profitability to the fluctuation in raw material prices and foreign currency exchange rate, though with presence of prudent hedging mechanism.

Rating Sensitivities

Positive Factors

- Increase in Total Operating Income (TOI) beyond Rs.350 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

- Decline in TOI below Rs.250 crore
- Decline in PBILDT margin below 10% on a sustained basis 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

Key Rating Strengths

Experienced Promoters: 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 total experience of around 16 years. 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 operations with long track record with moderate scale and healthy profitability: KGPL operates in two segments, i.e., manufacturing of terry towels/made ups & artificial leather and consignment stockist of GAIL (India) Limited for polymers for Rajasthan region. However, it has an established operations in terry towels & made ups with long track record.

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

Over the last 10 years its TOI has grown at CAGR of ~14% while its scale has remained moderate. During FY21 the TOI was impacted to some extent with a 10% decline on account of nationwide lockdown amid Covid-19 pandemic and non-receipt of subsidy for select quarters, which was however received subsequently. Q1FY21 operations were impacted due to closure of KGPL's operations for almost an entire month along with muted demand from USA market. However, by end of Q2FY21 demand of terry towel revived with reopening of large retail chains and simultaneously KGPL's sales also picked up during H2FY21.
Furthermore, company registered TOI of Rs.79.84 crore (including subsidy receipts) during Q1FY22 as against TOI of Rs.25.84 crore registered in Q1FY21, although there was some impact of second wave of covid pandemic during Q1FY22. KGPL has also maintained its PBILDT margin in the range of 13%-16% over last few years.

Moderate debt coverage indicators: The debt coverage indicators of KGPL stood moderate, marked by total debt to GCA of 4.52 times and PBILDT interest coverage at 6.04 times in FY21.

Stable demand prospects: After disruption in demand owing to outbreak of covid-19 pandemic, demand has picked up across various segments of the textile industry and is expected to sustain in near to medium term with successful roll out of vaccination and recovery in consumer spending. Nevertheless, sustenance of recovery also remains contingent on emergence of any further covid-19 cases going forward.

Key Rating Weaknesses
Concentrated customer and geographical revenue profile albeit reputed clientele base: KGPL's terry towel and made-ups business is almost entirely dependent on the export market i.e., primarily to USA and partially to Chile, South America. During FY21, KGPL generated around 85% of TOI from exports (83% of TOI in FY20). In addition, the revenue of KGPL's is highly concentrated to its top-10 customers. During FY21 the top-10 customer contributed around 78% of revenue from the total sale of products. However, its customer profile includes reputed player from large retail chains such as Walmart Inc., Khol's Inc., 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 leveraged with overall gearing of 1.41 times as on March 31, 2021, though improved from 1.82 times as on March 31, 2020, on account of accretion of profit to reserves. The TOL/NW also remained high at 1.95 times in FY21.

Slow ramp up in artificial leather business: KGPL has started manufacturing of artificial leather from second half of FY19, however over the last two three years, the ramp up of operations of this segment has remained subdued due to initial teething issue in FY20 and disruption in operations and subdued demand in FY21 amid Covid-19.
The major demand of artificial leather derives from footwear, bag, furniture, fashion accessories and automotive interiors. However, due to widespread of Covid-19 the demand from footwear segment has remained muted as the schools remain closed. Furthermore, as all major footwear brand are sitting on unsold stock, demand of artificial leather from footwear industry in the short term is expected to remain muted. However, as the automobile industry is witnessing some traction compared to previous year, revival in demand of artificial leather from auto industry is expected.

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 (over 85%) 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: Textile industry is a cyclical industry and closely follows the macroeconomic business cycles. During the outbreak of Covid-19 the entire textile industry was impacted, especially apparel and made ups business due to temporary closure of retail stores and shopping malls. However, with gradual resumption in economic activities and lifting of lockdowns, demand witnessed recovery mainly from H2FY21 onwards and is expected to remain stable.
The Government of India has extended various scheme 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

under which company earns rebate in the range of 6-8%. Hence, KGPL profitability is also expose to any change in incentive scheme roll out by the government from time to time.

Liquidity: Adequate
The company has adequate liquidity marked by healthy cash flow generation of Rs.33.53 crore from operating activities in FY21 and adequacy of cash accruals viz-a-viz moderate term loan repayment obligations. Further, the average utilization of fund-based working capital limits during the last 12 months ending September 2021 remained comfortable at ~64%. The business operations of KGPL are working capital intensive in nature marked by elongated operating cycle of 141 days in FY21 which elongated from 119 days in FY20 owing to covid-19 induced business disruptions. As the revenue profile of the KGPL is skewed towards the Q4 of financial year, the debtors outstanding at financial year end remain high. However, since KGPL's customer profile includes reputed player from large retail chains such as Walmart Inc., Kohl's Inc. etc. the risk of delayed collection is minimal. Going forward, company has scheduled annual debt repayments in the range of Rs.15-17 crore, which are expected to be met out of its cash accruals.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities
Rating Methodology: Manufacturing Companies
Rating Methodology: Cotton Textile Companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1980, Jaipur-based K G Petrochem Limited (KGPL) is promoted by Mr. G. S. Kandoi. KGPL is engaged in the manufacturing of terry towel and made up. KGPL also works as a consignment stockist of GAIL (India) Ltd for polymers for Rajasthan under its agency division. The company is also engaged in manufacturing of artificial leather. Terry towel segment is the major revenue earner for the company which contributed around 86% of TOI in FY21 (refers to period from April 01 to March 31). 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, 2021, 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)	FY20 (A)	FY21 (A)	Q1FY22
Total operating income	338.63	306.14	79.84
PBILDT	53.34	45.60	22.04
PAT	17.47	15.68	11.71
Overall gearing (times)	1.82	1.41	NA
Interest coverage (times)	5.54	6.04	12.33

A – Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Dec 2027	62.55	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 Guarantees	-	-	-	5.50	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	10.75	CARE A3+

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 - LT-Term Loan	LT	62.55	CARE BBB; Stable	-	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 (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+ (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+ (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 Guarantees	ST	5.50	CARE A3+	-	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+				

** Long Term / Short Term*
 # Reclassified from LT/ST to ST

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 Guarantees	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 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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