Kusumgar Corporates Private Limited

April 05, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	18.05	**CARE A-; Stable** (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	23.50	**CARE A-; Stable / CARE A2+** (Single A Minus; Outlook: Stable/ A Two Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)
Total Bank Facilities	**41.55 (Rs. Forty-One Crore and Fifty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kusumgar Corporates Private Limited (KCPL) factors in the improvement in operational performance, diversification in revenue segments and healthy financial risk profile of the company. The ratings continue to derive strength from experienced promoters in technical textile industry, integrated presence across value chain, diversified product mix, healthy operating margins along with improvement in scale of operations during FY21 and 11M-FY22, healthy capital structure and comfortable debt coverage indicators. The ratings, however, are constrained by working capital intensive nature of operations, customer and supplier concentration risk, project risk for ongoing capex and susceptibility to volatile raw material prices and foreign exchange rates.

Rating Sensitivities

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

- Improvement in scale of operations above Rs.500 crore on sustainable basis.
- Improvement in capital structure with overall gearing below 0.25x on sustained basis.

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

- Time or cost overrun in ongoing capex.
- Reduction in PBILDT margins below 15% on sustained basis
- Deterioration in capital structure with overall gearing above 0.75x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters in technical textile industry

Kusumgar Corporates Private Limited (KCPL) was originally incorporated in June 1990 in the name of Kusumgar Finstock Pvt. Ltd. and later changed its name to Kusumgar Corporates Pvt. Ltd. in November 2008. It was established by Mr Yogesh Kusumgar (Chairman) who has more than 40 years of experience in Technical Textile industry and currently managed by his son, Mr. Siddharth Kusumgar (Managing Director). He has been instrumental in defining the overall vision and establishing Kusumgar as one of the small sized established players in Technical Textile segment. The promoters are ably supported by professional management to run day-to-day operations.

Integrated presence across the value chain with diversified product mix

Over the years, Kusumgar has emerged as a small sized integrated Technical Textiles player with presence across the value chain right from weaving to processing/dyeing/finishing to printing to coating and lamination. Kusumgar is engaged in manufacturing of specialty textiles and industrial fabrics for various segments such as armed forces fabrics, parachute fabrics, ballistic fabrics, protective fabrics, etc.; industrials fabrics such as fabrics for mechanized rubber goods, tapes etc, outdoor fabrics for jackets, shorts etc. The company is a leading player in the world in certain products like parachute fabrics, tape fabrics etc. Kusumgar uses a wide variety of specialty materials including polyamide and polyester filament yarns, specialty nylon yarns, para-aramid yarns, etc. It uses varied types of looms such as Dornier Rigid Rapier looms, Sulzer Flexible Rapier Looms, Sulzer Projectile Weaving Machines, Waterjet looms etc. It weaves fabrics of finer denier from 15D to coarser ones 1000D yarns. KCPL's business can be categorized into four segments i.e., Defense, Industrial, Outdoor and Specialty. In FY18-19, KCPL has introduced different product lines in order to reduce its dependence on defense orders.

Improvement in scale of operations during FY21 and 11M-FY22; albeit remains modest

KCPL's FY21 Total Operating income grew by 72% on YoY basis to Rs.193 crore. KCPL has improved its scale of operations significantly during FY21, backed by orders from defence segment, diversification in customised segment such as manufacturing of PPE kits, industrial and speciality fabrics. Further, the company benefited from demand shift from China for manufacturing of

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

technical textile products. The company has continued to derive benefit during FY22 as well, with 11M-FY22 turnover at Rs.190 crore.

KCPL's improved focus on segments other than defence has led to improvement in scale of operations. As per the management, KCPL had higher exposure to defence segment which contributed ~50%-60% in revenue during FY18-19. However, the company has diversified its product portfolio and added new customers catering to variety of industries. Therefore, overall diversification has improved significantly over last 3 years.

As on March 24, 2022, KCPL has confirmed order book of ~Rs.80 crore to be executed in Q1FY23. Hence, the company has healthy revenue visibility in near term to maintain current level of performance.

Healthy operating margins; improvement in FY21 and 11M-FY22

KCPL's operating margins continues to remain higher as the company operates in technical textile segment focused on defence, industrial and specialty applications. KCPL's operating margins improved from 16.59% in FY20 to 19.28% in FY21. Improvement in operating margins is led by lower cost of raw material and improved focus on segments which delivers higher margins. KCPL's primary raw materials are derivative of crude oil. Crude oil prices remained lower during FY21 due to significant decline in demand outlook for crude consumption. Further, the company had started manufacturing PPE kits during lockdown period, which has kept plant running. KCPL has started supplying fabrics and other products to domestic as well as export customers. Improvement in operating margins also accounts for improving scale of operations during FY21. During 11M-FY22, KCPL's operating margin stood at 22.10%.

Going forward, KCPL expects operating margins to improve as the company is undertaking capacity expansion project to introduce new product with better margins.

Healthy capital structure and debt protection metrics

KCPL's capital structure continues to remain healthy with overall gearing at 0.27x as on March 31, 2021 (PY: 0.40x). Improvement in overall gearing is due to lower dependence on working capital limits despite increase in term loans. KCPL is undertaking debt funded capex in FY22-24 for capacity expansion. Total cost of project is Rs.70 crore and is expected to be funded through term loan of Rs.49 crore and balance through internal accruals. Further, 11M-FY22, KCPL has completed upgradation capex through term loan of Rs.13.5 crore. Considering above, KCPL's debt levels are expected to increase. However, with healthy profitability and accretion of profit to Networth of the company, overall capital structure is expected to show modest decline for FY23-24 period.

Debt coverage indicators remains healthy during FY21 with Total debt to GCA at 0.98x (PY: 2.54x), interest coverage at 10.65x (PY: 6.16x) and Total debt to Cash flow from operations at 0.89x (PY: 35.56x). Due to upcoming debt funded capex, coverage indicators are expected to show marginal deterioration, although will remain comfortable.

Tender base nature of operations; albeit diversification in revenue segment apart from defence

In FY21, KCPL's 27% (30% in FY20) of income derived from defence segment, in which contract are awarded based on tender. As the nature of these contracts are primarily fixed price, KCPL's bottom-line remains vulnerable as the company cannot pass on the fluctuations in raw material prices to customers. However, in last 3 years, KCPL's revenue contribution from defence segment has reduced from 61% in FY18 to 27% in FY21. Therefore, risk of tender based operations has mitigated partially while improving revenue visibility from other segments.

Key Rating Weaknesses

Working capital intensive nature of business

KCPL's operations remains working capital intensive with elongated operating cycle. The working capital utilisation remain low. The Operating cycle improved significantly from 182 days in FY20 to 120 days in FY21 primarily due to improvement in collections and movement of inventory. KCPL had faced stuck debtors and inventory position during March, 2020. In FY20, KCPL was expecting significant orders and had procured raw materials for the same. However, due to deferment of those orders KCPL was left with significant inventory in terms of raw materials as well as finished goods. However, once lockdown restrictions eased and movement of material improved, KCPL was able to attain its normal operating cycle of 120 days. As KCPL has reputed customer base, the company has not witnessed any major headwinds for collection of debtors. As on March 31, 2021, KPCL had Rs.1.28 crore of debtors ageing in more than 6 months, which stood at Rs.1.15 crore on January 31, 2022. Further, on account of sufficient cash accruals in FY21 and 9MFY22, KCPL's reliance on working capital limits has reduced. Average working capital utilization stood at 6% for 12-month period ending in Jan-22. However, as KCPL is undertaking capex which will be partly funded through internal accrual, reliance on working capital limit may increase. Although it is expected to remain comfortable considering headroom available with the company in term of unutilised working capital limits.

Customer concentration and Supplier risk

KCPL's top 10 customers accounted for nearly 55% for total sales in FY21 as against 59% for total sales in FY20, resulting in marginal reduction in the customer concentration risk. Customer concentration risk is partially mitigated as the company has long standing relationship with majority of its customers. Top 10 suppliers accounted for nearly 55% of total purchases in FY21 (87% in FY20). Over the years, KCPL has been able to establish relationships with its vendors and customers and thus has been able to obtain consistent orders, however its high concentration and order execution risk remains critical to its credit profile.

Capacity expansion project for FY22-FY23 period

KCPL is undertaking capacity expansion project of Rs.70 crore for FY22-23 period. The capex will primarily focus on procuring new machinery and equipment for capacity addition. KCPL will acquire 64 new looms for outlay of Rs.24 crore and processing machinery for Rs.42 crore. The capacity addition will take place on leasehold land and building near to current plant. The company is in final stage of entering into lease agreement with the land owner and expected to get completed by April, 2022. Looms and other processing machinery will be purchased from domestic suppliers and is expected to have lead time of 5-6 months. As per the management, capacity addition will be completed by Jan-Feb, 2023 and KCPL will receive full benefit during FY24. The capex is funded through mix of debt (Rs.49 crore) and internal accruals.

Susceptibility to fluctuation in raw materials prices

The major raw materials used by the company are specialty nylon/polyester/rayon yarns; all being derivative of crude oil are continuously affected by movement in crude oil prices. The company imports 40%-50% of its raw material requirement wherein it gets better credit term of up to 90 days and balance through domestic players like Reliance Industries Limited, where it is required to make upfront payment. Kusumgar imports specialty raw material (Yarn, chemicals and fabric) which further processes it in its manufacturing facilitates and is also engaged in exports of technical textiles. Over the years, KCPL has reduced its imported raw material. However, the company continues to depend on imports as it remains vital for key products offerings.

Susceptible to fluctuations in foreign exchange rates

In FY21, total value of imports stood at Rs.50.94 crore as against Rs.26.07 crore in FY20. Total exports stood at Rs.41.75 crore (22% of total sales) in FY21 vis-à-vis Rs.27.41 crore (25% of total sales) in FY20. Hence, Kusumgar to an extent is naturally hedged and tries to manage timing differences between imports and exports payments which reduces foreign currency fluctuation risk by hedging the differential portion. KCPL's unhedged exposure has increased marginally due to increase in export sales and imports of raw material.

Liquidity: Adequate

KCPL's liquidity profile is marked with modest cash and bank balance of Rs.2.18 crore and healthy current ratio at 2.52x as on March 31, 2021. KCPL's average working capital utilization remains low at ~6% for 12-month period ending in Jan-22. Thus, providing sufficient headroom for meeting incremental working capital needs from existing line of credit. for FY22, KCPL has term loan repayment of Rs.6.64 crore against expected cash accruals of Rs.34 crore. The company is also coming up with capex of Rs.70 crore which is expected to be funded through term loan of Rs.49 crore and balance through internal accruals. Considering above, KCPL's liquidity profile remains adequate in near term.

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
Manmade Yarn Manufacturing

About the Company

Kusumgar Corporates Private Limited (KCPL) was originally incorporated in June 1990 in the name of Kusumgar Finstock Pvt. Ltd and later changed its name to Kusumgar Corporates Pvt. Ltd in November 2008. It was established by Mr. Yogesh Kusumgar (Chairman) who has more than 40 years of experience in Technical Textile industry and it is currently managed by his son, Mr. Siddharth Kusumgar (Managing Director).

Kusumgar is engaged in manufacturing of specialty textiles and industrial fabrics for various segments such as armed forces fabrics, parachute fabrics, ballistic fabrics, protective fabrics, etc.; industrials fabrics such as fabrics for mechanized rubber goods, tapes etc, outdoor fabrics for jackets, shorts etc. The company is a leading player in the world in certain products like parachute fabrics, tape fabrics etc. Kusumgar uses a wide variety of specialty materials including polyamide and polyester filament yarns, specialty nylon yarns, para-aramid yarns, etc. It uses varied types of looms such as Dornier Rigid Rapier looms, Sulzer Flexible Rapier Looms, Sulzer Projectile Weaving Machines, Waterjet looms etc. It weaves fabrics of finer denier from 15D to coarser ones 1000D yarns. KCPL's business can be categorized into four segments i.e., Defense, Industrial, Outdoor and Specialty. Over the years Kusumgar has emerged as a small sized integrated Technical Textile player with presence across the value chain right from weaving to processing/dyeing/finishing to printing to coating and lamination. Existing manufacturing facilities are located at Surat (weaving) Vapi (weaving & processing).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11M-FY22 (Prov.)
Total operating income	112.62	193.91	187.54
PBILDT	18.68	37.38	41.75
PAT	6.11	18.34	20.47
Overall gearing (times)	0.40	0.27	NA
Interest coverage (times)	6.16	10.65	13.43

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

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	2027	18.05	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	23.50	CARE A-; Stable / CARE A2+

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	18.05	CARE A-; Stable	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Positive (30-Oct-18)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	23.50	CARE A-; Stable / CARE A2+	1)CARE BBB+; Stable / CARE A2 (05-Apr-21)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-20) 2)CARE BBB+; Stable / CARE A2 (13-Sep-19)	1)CARE BBB+; Positive / CARE A2 (30-Oct-18)
3	Fund-based/Non-fund-based-LT/ST	-	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-20) 2)CARE BBB+; Stable / CARE A2 (13-Sep-19)	1)CARE BBB+; Positive / CARE A2 (30-Oct-18)

* Long Term / Short Term

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-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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 Ratings Ltd. 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Soumya Dasgupta
Contact no.: +91-22-6754 3456
Email ID: soumya.dasgupta@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**