Kusumgar Corporates Private Limited (Revised)
April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	18.05	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	23.50	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Reaffirmed
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 reaffirmation of ratings assigned to Kusumgar Corporates Private Limited (KCPL) continues to derive strength from the experience of the promoter in the technical textile business, integrated presence across the value chain with diversified product mix, healthy capital structure, comfortable debt coverage ratios along with improvement in operational performance in 11MFY21. These rating strengths are, however, modest scale of operations, exposure to fluctuation in the prices of raw materials and forex movements, and competitive nature of the industry.

Rating Sensitivities

Positive Factors:

- Sustainable improvement in scale of operations with CAGR above 12% for next 4 years.
- Reduction in operating cycle below 80 days with improvement in collection period and inventory period.

Negative Factors:

- Deterioration in capital structure with overall gearing above 1.00x
- Reduction in PBILDT margin below 14% on sustainable basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

Kusumgar Corporate 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 is established by Mr Yogesh Kusumgar (Chairman) who has more than 40 years of experience in Technical Textile industry. He has been instrumental in defining the overall vision and establishing Kusumgar as one of the established players in Technical Textile segment.

Integrated presence across the value chain with diversified product mix

Over the years Kusumgar has emerged as an integrated Technical Textiles player with presence across the value chain right from weaving, dyeing, finishing, printing, coating and lamination. Kusumgar is engaged in manufacturing of specialty textiles for various segments such as armed forces fabrics for applications like parachutes, ballistics, etc.; industrials fabrics such as filter fabrics, belting fabrics, peel ply fabrics, etc.; sports and recreational fabrics, etc. The company is a leading player in India in certain products like parachute fabrics, military textiles, industrial fabrics etc. Kusumgar uses a wide variety of specialty materials including nylon 66 & 6, aramid yarns, polyester etc. It uses varied types of looms such as Dornier Rapier looms, Water Jet looms etc. It weaves fabrics of finer denier from 20D to coarser ones upto 3000D yarns.

Healthy capital structure and debt protection metrics

Overall gearing (including acceptances on LC) remained healthy but deteriorated marginally from 0.32x as on March 31, 2019 to 0.40x as on March 31, 2020. The Total Debt/GCA deteriorated marginally from 1.54x in FY19 to 2.54x in FY20. Consequently, Interest Coverage also declined from 7.12x in FY19 to 6.16x in FY20. The coverage metrics deteriorated marginally in FY20, however remained comfortable. The company is undertaking capacity expansion of Rs.25 crore in order

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

to cater to increase in demand which shall lead to total revenue increase to Rs.500 crore in coming years. The debt coverage ratios showed improvement in 11MFY21 with the increase in revenue and margins.

Improvement in operating margins

In 11MFY21, the revenue of the company increased by 54% primarily due to increase in orders from defence segment and other customised segment (PPE Kits along with industrial, speciality fabric etc). The margins have also improved substantially from 16.59% in FY20 to 20.04% in 11MFY21 mainly due to increase in sale price. KCPL's operating income dipped by 14% to Rs.112.62 crore in FY20 from Rs.131.74 crore in FY19 mainly due to deferment of various defence, auto ancillaries & belting orders. KCPL's defence segment declined to 24% in FY20 compared to 44% in FY19. However, in 9MFY21, revenue share from defence improved to 37% to Rs.52.16 crore. KCPL also has forayed into outdoor luggage bags segment. In 9MFY21, the company also manufactured PPE kits leading to share of other customised products.
PBILDT margins of KCPL improved by 84 basis points to 16.59% in FY20 from 15.75% in FY19 due to increase in sales price along with rationalisation of operational cost. It has further led to improvement in margins in 11MFY21 to 20.75%

Key Rating Weaknesses

Modest scale of operations

In 11MFY21, the revenue of the company increased by 54% from FY20 primarily due to increase in orders from defence segment and other customised segment (PPE Kits along with industrial, speciality fabric etc). However, net sales of the company declined at a CAGR of 8.52% over the past 3 years (FY18-FY20). The scale of operations continues to remain moderate. Due to its small scale of operations, revenues projected over the next couple of years are sensitive to order execution risk if some big sized orders are not materialized. KCPL currently has order book of Rs. 93.12 crore as on February 15, 2021, of which, Rs.35 crore order book will be executed till March 2021.

Tender base nature of business

In FY20, KCPL's 24% (44% in FY19) of income derived from defence segment, in which contract are awarded based on tender. As the nature of these contracts are primarily fixed-price, going forward, KCPL's ability to get repeated orders from this segment as well as increasing revenue-share from other segments remains a key rating monitor able. KCPL currently has healthy order book from Defence for next 2 years.

Susceptibility to fluctuation in raw materials prices

The major raw materials used by the company are specialty nylon/polyester yarns. The company imports 40%-45% of its raw material requirement wherein it gets better credit term of up to 120 days and balance through domestic players like Reliance Industries Limited, Alok Industries and other local chemicals industries. Due to fluctuations in raw material prices in FY20, KCPL's gross margin increased to 55% as against 46% in FY19. 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 FY20, total value of imports stood at Rs. 27.54 crore as against Rs. 38.86 crore in FY19. Total exports stood at Rs. 27.41 crore (24% of total sales) FY20 vis-à-vis Rs. 19.62 crore (15% of total sales) in FY19. 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. Ability of the company to effectively manage its foreign exchange exposure remains critical to its credit profile given small size of operations. KCPL exports to USA are growing and it shall be net a exporter in coming years.

Working capital intensive nature of business

KCPL's operations remains working capital intensive with high working capital utilization and elongated operating cycle. Operating cycle deteriorated from 120 days in FY19 to 182 days in FY20 primarily an account of lower receivables and inventory turnover. In FY20, KCPL was expecting significant orders in defence segment and had procured raw materials for the same. Thus, KCPL is left with significant inventory in terms of raw materials as well as finished goods. Collections period also increased owing to same. KCPL's collection period deteriorated from 85 days in FY19 to 95 days in FY20 while inventory period deteriorated from 64 days in FY19 to 109 days in FY20. As on March 31, 2020, KCPL has Rs.4.38 crore receivables exceeding 6 months from due date of total receivables of Rs.15.43 crore. KCPL's average working capital utilization remained at 31% for 12 months ending December 2020.

Customer concentration and Supplier risk

KCPL's top 10 customers accounted for nearly 49% for total sales in FY20 as against 61% for total sales in FY19, resulting in declining the customer concentration risk. However, in 9MFY21, the top 10 customers accounted for nearly 66.5%. Top 10 suppliers accounted for nearly 78% of total purchases (69% in FY19) while they accounted for around 75% in 9MFY21. 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.

Liquidity: Adequate

KCPL's liquidity profile is marked by modest cash and bank balance of Rs.3.72 crore and current ratio at 2.21x as on March 31, 2020. The company has a cash and bank balance of Rs.0.54 crore and mutual funds of Rs.10 crore as on Feb 28, 2021. Further, KCPL's average maximum working capital utilization remains moderate at 31% for 12-month period ending in December, 2020, thus providing adequate headroom for liquidity. For FY21, the all the repayment obligations have been fulfilled by the company. It has term loan repayment of Rs.7.60 crore against expected cash accruals of Rs. 32.69 crore for FY22. The company has not availed any moratorium as provided by RBI.

Analytical approach: Standalone

Applicable Criteria

Rating of Short Term instruments
Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings
Rating methodology – Manufacturing companies
Rating of Short Term instruments
Financials Ratio-Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Kusumgar Corporate Private Limited (Kusumgar) 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. Kusumgar is engaged in manufacturing of speciality textiles and industrial fabrics for various segments such as armed forces fabrics such as parachute fabrics, ballistic fabrics, protective fabrics, etc.; industrials fabrics such as filter fabrics, coated fabrics, etc.; sports and recreational fabrics, etc. Existing manufacturing facilities are located at Surat (weaving) & Vapi (coating & processing) with corporate office in Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	131.74	112.62
PBILDT	20.75	18.68
PAT	6.60	6.11
Overall gearing (times)	0.32	0.40
Interest coverage (times)	7.12	6.16

A: Audited

Status of non-cooperation with previous CRA:

CRISIL has moved the long-term and short-term ratings for the bank facilities of Kusumgar Cooperates Private Limited (KCPL) to the 'Issuer Not Cooperating' category citing that the entity's management has remained non-cooperative.

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 - NA

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

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	-	-	March 2027	18.05	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	23.50	CARE BBB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	18.05	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Positive (30-Oct-18)	1)CARE BBB+; Positive (22-Dec-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	23.50	CARE BBB+; Stable / CARE A2	-	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)	1)CARE BBB+; Positive (22-Dec-17)

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

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

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

.Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Soumya Dasgupta
Contact no.- 9004691428
Email ID- soumya.dasgupta@careratings.com

Relationship Contact
Ankur Sachdeva
Contact no.- +91-22-67543495
Email ID: ankur.sachdeva@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**