Kusumgar Corporates Private Limited

March 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	18.05	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	23.50	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Kusumgar Corporates Private Limited (KCPL) factors in the improvement in the operational performance, diversification in revenue segments and healthy financial risk profile of the company. The ratings continue to derive strength from experienced promoters in the technical textile industry, integrated presence across value chain, diversified product mix, healthy operating margins along with improvement in the scale of operations during FY22 and 9M-FY23, healthy capital structure and comfortable debt coverage indicators. The ratings are, however, 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: Factors likely to lead to rating actions

Positive factors

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

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects the overall performance of the company to continue satisfactorily in the coming years.

Key strengths

Experienced promoters in technical textile industry

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

Integrated presence across the value chain with diversified product mix

Over the years, KCPL 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. KCPL is engaged in the 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 mechanised rubber goods, tapes, etc; and outdoor fabrics for jackets, shorts, etc. The company is a leading player in the world in certain products like parachute fabrics, tape fabrics etc. KCPL uses a wide variety of specialty materials, including polyamide and polyester filament yarns, specialty nylon yarns, para-aramid yarns, and so on. It uses varied types of looms, such as Dornier Rigid Rapier looms, Sulzer Flexible Rapier Looms, Sulzer Projectile Weaving Machines, and Waterjet looms. It weaves fabrics of finer denier from 15D to coarser ones of 1000D yarns. KCPL's

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

business can be categorised 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 which contribute more than 50% to the total revenue as on March 31, 2022.

Improvement in the scale of operations during FY22 and 9M-FY23; albeit remains modest
KCPL's total operating income (TOI) for FY22 grew by 15% on Y-o-Y basis to ₹222.94 crore. KCPL has improved its scale of operations significantly during FY22, backed by orders from the defense segment, diversification in the customised segment such as industrial and speciality fabrics. Furthermore, the company benefited from demand shift from China for manufacturing of technical textile products. The company has continued to derive benefit during FY23 as well, with 9MFY23 turnover at ₹220.13 crore. KCPL's improved focus on the segments other than defense has led to improvement in the scale of operations. As per the management, KCPL had higher exposure to defense segment which contributed around 50%-60% in the 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 three years. As on March 10, 2023, KCPL has confirmed order book of around ₹125 crore to be executed in Q1 and Q2 FY24. Hence, the company has healthy revenue visibility in the near term to maintain the current level of performance.

Healthy operating margins; improvement in 9M-FY23
KCPL's operating margins continue to remain higher as the company operates in the technical textile segment focused on defense and industrial needs. KCPL's operating margins marginally moderated at 18.79% in FY22 vis-à-vis 19.19% in FY21. Moderation in the operating margins is led by higher cost of raw material. However, the PBILDT margin continues to remain healthy on account of improved focus on segments which delivers higher margins. KCPL's primary raw materials are derivative of crude oil. The crude oil prices remained higher during FY22 due to significant decline in the demand outlook for crude consumption. KCPL has started supplying fabrics and other products to domestic as well as export customers. Improvement in the operating margins also accounts for improving scale of operations during FY22. During 9M-FY23, KCPL's operating margin stood at 20.83%.
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 0.26x as on March 31, 2022 (PY: 0.27x). 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 FY23-24 for capacity expansion of ~2 crore meters per annum. Total cost of project is Rs.70 crore which will be funded through term loan of Rs.45 crore and balance through internal accruals. Considering above, KCPL's debt levels are expected to increase in the medium term. 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 FY22 with Total debt to GCA at 0.99x (PY: 0.98x), interest coverage at 12.62x (PY: 10.60x). However, total debt to cash flow from operations deteriorated to 2.88x (PY: 0.89x) on account of decline in cash flow from operations. Due to upcoming debt-funded capex, CARE Ratings expects KCPL's coverage indicators to show marginal deterioration, although will remain comfortable.

Tender-based nature of operations; albeit diversification in revenue segment apart from defense
In FY22, KCPL's 33% (PY: 30%) of income was derived from the defense 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 the customers. However, in the last 3 years, KCPL's revenue contribution from the defense segment has reduced from 61% in FY18 to 27% in FY22. Therefore, the risk of tender-based operations has mitigated partially while improving revenue visibility.

Key weaknesses

Working capital intensive nature of business
KCPL's operations remain working capital intensive with elongated operating cycle. The working capital utilisation remains low. The operating cycle moderated at 121 days in FY22 (PY: 119 days) primarily due to stretched collection period majorly from the defense segment. As KCPL has reputed customer base, the company has not witnessed any major headwinds for collection of debtors. As on March 31, 2022, KCPL had ₹10.15 crore of debtors ageing in more than 6 months, which reduced to ₹9.35 crore on December 31, 2022.
As on March 31, 2022, KCPL had ₹13.73 crore of debtors ageing in more than 6 months, which according to the management have been realised as of February 2023. Furthermore, on account of sufficient cash accruals in FY22 and 9MFY23, KCPL's reliance on working capital limits has reduced.

Average working capital utilisation stood at 10% for 12-month period ending in December 2022. However, as KCPL is undertaking capex which will be partly funded through internal accrual, reliance on the working capital limit may increase. Moreover, CARE Ratings expects it to remain comfortable considering the headroom available with the company in terms of unutilised working capital limits.

Customer concentration and supplier risk

KCPL's top 10 customers accounted for nearly 52% of the total sales in FY22 as against 55% of the total sales in FY21, 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 72% of the total purchases in FY22 (55% in FY21). 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 FY23-FY24 period

KCPL is undertaking capacity expansion project of ₹70 crore for FY23-24 period. The capex will primarily focus on procuring new machinery and equipment for capacity addition. KCPL will acquire 64 new looms for outlay of ₹24 crore and processing machinery for ₹42 crore. The capacity addition will take place on leasehold land and building near to the current plant. The company entered into lease agreement with the landowner in November 2022. Looms and other processing machinery will be purchased from domestic suppliers and is expected to have lead time of 3-4 months. As per the management, capacity addition will be completed by December 2023 and KCPL will receive full benefit during FY25. The capex is funded through mix of debt (₹45 crore) and internal accruals. As on March 10, 2023, 20% of the project is complete which was funded through ₹8 crore from bank and ₹7 crore from internal accruals.

As per the previous surveillance rating exercise, the above-captioned capex was expected to be completed by February 2023. However, due to delay in construction from lessor's end, the capex plan is postponed and is expected to be completed by December 2023. Going forward, CARE Ratings continue to monitor the timely execution of the capex without any costs and further time overrun.

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. KCPL imports specialty raw material (yarn, chemicals and fabric) which further processes it in its manufacturing facilitates and is also engaged in the 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 FY22, the total value of imports stood at ₹47.16 crore as against ₹50.94 crore in FY21. The total exports stood at ₹76.21 crore (34.5% of the total sales) in FY22 vis-à-vis ₹41.75 crore (22% of the total sales) in FY21. Hence, KCPL to an extent is naturally hedged and tries to manage the 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 the export sales and imports of raw material.

Liquidity: Adequate

KCPL's liquidity profile is marked adequate with cash and bank balance of ₹3.48 crore and healthy current ratio at 2.49x as on March 31, 2022. KCPL's average maximum working capital utilisation remains low at around 10% for 12-month period ending in December 2022. Thus, providing sufficient headroom for meeting incremental working capital needs from the existing line of credit. The scheduled debt repayments of ₹6.85 crore for FY23 have been repaid by KCPL as on March 10, 2023. The company is also coming up with capex of ₹70 crore, which is expected to be funded through term loan of ₹45 crore and balance through internal accruals. Considering above, KCPL's liquidity profile remains adequate in the near term.

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

Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	193.70	222.94	218.52
PBILDT	37.18	41.90	45.52
PAT	18.34	22.46	NA
Overall gearing (times)	0.27	0.26	NA
Interest coverage (times)	10.60	12.62	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	18.05	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	23.50	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ 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	18.05	CARE A-; Stable	1)CARE A-; Stable (05-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (13-Sep-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	23.50	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-22)	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)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

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

Note on the 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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