KG Petrochem Limited

July 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	38.53 (Reduced from 46.15)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	73.25	CARE BBB; Stable / CARE A3+	Reaffirmed
Short Term Bank Facilities	15.75	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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, profitability and debt coverage indicators and adequate liquidity, though operating cycle continues to remain elongated.

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: Factors likely to lead to rating actions

Positive factors

- 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 0.70x

Negative factors

- Decline in TOI below Rs.250 crore or decline in PBILDT margin below 10% on a sustained basis
- Moderation in capital structure above 1.20x along with moderation in debt coverage indicators
- Elongation of working capital cycle beyond 180 days on sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company will continue to benefit from vast experience of the promoters in textile industry and sustain its moderate financial risk profile in near to medium term.

Detailed description of the key rating drivers:

Key strengths

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 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 ~75% of its TOI over the past 3 years.

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

KGPL's TOI remained moderate at Rs.306.32 crore in FY23 (Rs.360.51 cr. in FY22). It declined by 15% y-oy in FY23 mainly due to decrease in sales volume of terry towel with slowdown in export demand of home textiles.
KGPL's operating profit (PBILDT) margin moderated by 244 basis points y-o-y but remained moderate at 9.60% in FY23. Operating margin moderated due to high and volatile raw material prices (mainly yarn and chemicals), alongwith high power costs.
TOI is expected to increase in current year with some traction in demand, alongwith commencement of sales of a new product visually bed sheets. This, alongwith stabilisation of input costs, is also expected to yield in some improvement in profitability; though the same is expected to remain moderate.
The debt coverage indicators of KGPL also deteriorated to some extent owing to lower profitability, however stood moderate marked by total debt to GCA of 6.09 times (4.50 times in FY22) and PBILDT interest coverage at 3.05 times (5.39 times in FY22) in FY23.

Key weaknesses

Concentrated customer and geographical revenue profile though 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 FY23, KGPL generated ~69% of TOI from exports (76% of TOI in FY22). In addition, the customer profile of KGPL is highly concentrated with top-10 customers forming ~63% of TOI (70% of TOI in FY22) in FY23. However, its customer profile includes reputed retail chains such as Walmart Inc., Jay Franco & Sons etc. which insulates KGPL from delay in collection to some extent. Also, KGPL has long established relationship with these clients which enables repeat business from them. Nevertheless, any change in customer preference and/or political instability and economic slowdown in these markets could impact the operations of KGPL.

Leveraged capital structure
The capital structure of KGPL remained moderately leveraged with overall gearing of 0.96x as on March 31, 2023, though improved from 1.28 times as on March 31, 2022 with prepayment of Rs.9.65 cr. in FY23 backed by healthy cashflow from operations. The Total Outside Liabilities / Net worth ratio continued to remain high at 1.51 times in FY23 (1.87 times in FY22).
Further, Company availed a new loan in FY23 of Rs.8 crore, of which disbursed is of Rs.5.61 crore in FY23 for putting up manufacturing line of bedsheets. Total cost of this project is Rs.10 crore, with project DER of 4:1. Commercial operations have commenced from May 2023.

Slow ramp up in artificial leather business
KGPL started manufacturing of artificial leather from second half of FY19, however over the last four - five 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 due to Covid-19 pandemic. This apart, the segment also faces intense competition from low-cost products.
There has been some traction in sales of artificial leather in FY23 with sales of Rs.66.18 cr as compared to Rs.44.08 cr. in FY22, supported by pickup in demand from its key end-user industries and more focus on exports of the same. However, its scale continues to remain low.

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. Global demand for home textiles was impacted in FY23 with slowdown in sales of key US retailers, though some traction in demand is expected in H2FY24. Adding to demand challenge is the price of raw cotton, which is a key input to KGPL and exhibits volatility in prices based on availability. While prices had increased significantly in FY23, with the arrival of new cotton crops, the prices of have moderated.

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 exposed to any change in incentive scheme roll out by the government from time to time.

Liquidity: Adequate

The company has an adequate liquidity profile, marked by adequacy of gross cash accruals against repayments, and moderate average utilization of fund-based working capital limits at 74% for past 12 months ended June, 2023.
The operations of KGPL are working capital intensive in nature marked by a long operating cycle, which increased to 162 days in FY23 from 133 days in FY22 with increase in both, receivables and inventory holding period owing to some slowdown in export markets. KGFL needs to maintain sufficient inventory to meet demand, which alongwith the export lead time results in a high inventory period of 80 to 100 days. Also, as the revenue profile of KGPL is slightly skewed towards the last quarter of the financial year, debtors outstanding at financial year end also remains high. However, KGPL's customer profile in the terry towel segment largely includes reputed players from large retail chains, which reduces the risk of delayed collection to an extent. In the artificial leather segment, KGPL mainly supplies to domestic players wherein it has to offer extended credit period.
KGPL's debtors outstanding for more than six months increased from around Rs.8 crore to around Rs.21 crore, of which around Rs.7 cr were from artificial leather & consignment stockist segments, while remaining were from one of its clients in the terry towel segment. While cash flow from operations stood adequate with release of funds for export incentives, 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 comfortably from its envisaged cash accrual generation.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

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

Incorporated in 1980, Jaipur-based KGPL is promoted by Mr. G. S. Kandoi. KGPL is engaged in the nufacturing 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 ~77% of its TOI in FY23. 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, 2023, 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	301.21	360.51	306.32
PBILDT	40.66	43.40	29.42
PAT	15.68	17.44	7.79
Overall gearing (times)	1.41	1.28	0.96
Interest coverage (times)	5.38	5.39	3.05

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

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: 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-Cash Credit		-	-	-	1.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	December 2027	37.53	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	10.75	CARE A3+
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+

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	37.53	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Sep-22)	1)CARE BBB; Stable (01-Nov-21)	1)CARE BBB; Stable (05-Oct-20)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BBB;	-	1)CARE BBB;	1)CARE BBB;	1)CARE BBB; Stable

				Stable		Stable (01-Sep-22)	Stable (01-Nov-21)	(05-Oct-20)
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-Sep-22)	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)	1)CARE BBB; Stable / CARE A3+ (05-Oct-20)
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-Sep-22)	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)	1)CARE BBB; Stable / CARE A3+ (05-Oct-20)
5	Fund-based - ST-EPC/PSC	ST	-	-	-	-	-	1)Withdrawn (05-Oct-20)
6	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (05-Oct-20)
7	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A3+	-	1)CARE A3+ (01-Sep-22)	1)CARE A3+ (01-Nov-21)	1)CARE A3+ (05-Oct-20)
8	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (05-Oct-20)
9	Fund-based - ST-EPC/PSC	ST	10.75	CARE A3+	-	1)CARE A3+ (01-Sep-22)	1)CARE A3+ (01-Nov-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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-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: 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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