KPT Industries Limited

July 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	17.08 (Reduced from 18.04)	CARE BBB; Stable	Revised from CARE BBB-; Positive
Long-term / Short-term bank facilities	18.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Positive / CARE A3
Short-term bank facilities	23.23	CARE A3+	Revised from CARE A3

Details of facilities in Annexure-1

Rationale and key rating drivers

Revision in ratings to bank facilities of KPT Industries Limited (KPTIL, formerly known as Kulkarni Power Tools Limited) is on the back of healthy growth in its profitability in FY24 (Audited; refers to April 1 to March 31) and stable scale of operation, comfortable overall gearing, and moderate debt coverage indicators.

CARE Ratings Limited (CARE Ratings) also takes note of the expected improvement in diversification, with improvement in E-Cart sales going ahead. Ratings continue to derive strength from experienced promoters and the long operational track record of KPTIL over four decades in the electric power tools industry, and established distribution channel.

However, above rating strengths are tempered by the modest scale of operations and net worth base, working capital intensive nature of operations, high dependence on single segment, profitability susceptible to volatile raw material prices, and fragmented and intense competition in the electric power tools industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- ✓ The company's ability to scale up its operations above ₹300 crore and improvement in profit before interest, lease, depreciation and taxes (PBILDT) margin above 15% on a sustained basis.
- ✓ Improved diversification with substantially improving sales from E-Cart segment.
- ✓ Improving overall gearing and total debt to gross cash accrual (GCA) below 0.45x and 1.80x, respectively, on a sustained basis.

Negative factors:

- Deteriorating overall gearing to more than 1.40x on a sustained basis.
- Declining profitability with PBILDT margin below 8%.
- Operating cycle deteriorating to more than 200 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that KPTIL is expected to maintain its operating risk profile with its established presence in the Power tool industry supported by long and established track record of the promoters. The company's solvency and liquidity position are also expected to remain stable in the medium term.

Detailed description of key rating drivers

Key strengths

Extensive experience and long-standing track record of promoters in power tool industry

KPTIL is currently under the leadership of P.A Kulkarni, serving as the Executive Chairman, and Dilip Kulkarni, who holds the position of Managing Director. Both individuals have extensive experience of over four decades in manufacturing electric power tools. They oversee the company's overall management. Supported by a seasoned team, the promoters hold key positions in different divisions within the organisation. Their significant tenure in the industry has equipped them with ample knowledge and expertise in the field.

Sustained yet modest scale of operations and healthy profitability margins

The company's scale of operations has marginally improved by 2% but continues to remain moderate in FY24. In FY24, KPTIL clocked total operating income (TOI) of ₹151.63 crore. This growth was primarily driven by improved demand from the power tool division despite reduced sales from E-Cart division. The company continues to operate at healthy and improved PBILDT margins which rose by 260 basis points to 15.14% in FY24. Improvement in margin is attributed to introduction of new products in power tool division and larger-sized blower which helped to fetch higher profit margins. Consequent to improved PBILDT margin, the company achieved a profit after tax (PAT) margin of 7.95% in FY24, compared to 5.62% in FY23. Overall, the performance in FY24 surpassed the previous year's results in terms of profitability. The improvement in profitability also led

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

to enhanced return ratios, with return on capital employed (ROCE) of approximately 24.24% in FY24, compared to approximately 22.54% in FY23.

Improved capital structure and debt protection metrics

Over the years, with accretion of profits to net worth and repayment of long-term debt and moderately utilised working capital limits, the company's capital structure remained comfortable. As on March 31, 2024, total debt stood at ₹36.91 crore (PY: 29.95 crore). The overall gearing was 0.67x as on March 31, 2024 (as compared to 0.68x in FY23). With the comfortable capital structure and improved profitability, the debt coverage indicators also improved yet remain modest in FY23. The total debt/GCA stood at 2.40x as at the end of FY24 (as compared to 2.61x in FY23 and 4.76x in FY22) and the interest coverage ratio also was at 5.80x in FY24 compared to 4.31x in FY23.

Low customer concentration and an extensive dealer network

The company maintains a diversified customer base, with the top 10 customers accounting for approximately 18% of total sales indicating low customer concentration risk. KPTIL's power tool products' distribution is facilitated through a network of around 500 dealers operating from a central distribution depot. Additionally, the company sources raw materials from both domestic (about 60%) and overseas markets. This diversified customer base and supply chain reduce counterparty risk to a certain extent.

Key weaknesses

Product concentration risk

KPTIL operates under three primary business segments - Portable Power Tools, Blowers, and E-Cart segment. The major income is derived from portable power tools segment (76% of total revenue in FY24) followed by Blowers division (20%) and E-Cart segment (4%). The company's heavy reliance on the power tool segment poses a concentration risk. Any adverse changes in the demand for power tools or disruptions in the industry can significantly impact the company's financial performance. However, on the back of inflow of orders from existing and new customers in the E-Cart segment, revenue share from E-Cart segment is expected to improve, going forward which is likely to increase product diversification.

Working capital intensive operations

KPTIL operates in the business where working capital is high with funds mainly blocked in inventory and receivables. The company generally keeps raw material inventory of 100 to 110 days and finished goods inventory of 55 to 65 days led by wide variety of products mainly under power tools division. The blower division operates mostly on make-to-order basis. Moreover, KPTIL provides credit period of 75 to 80 days to customers (dealer) for power tools division and 90 to 110 days to customer for blower division, reflecting working capital intensive nature of operations. KPTIL's operating cycle has deteriorated to 167 days in FY24 as compared to 141 days in FY23. Efficient management of working capital cycle and improvement in liquidity position will remain a key rating sensitivity.

Profitability susceptible to volatility in raw material prices

KPTIL's primary raw material comprises ferrous castings, steel, copper wire, non-ferrous castings, the prices of which are volatile in nature. The raw material cost is the major cost for the company and accounts for approximately 60% of total sales. The company's ability to pass on the increased raw material cost to its customers is limited owing to its presence in highly competitive industry. Accordingly, the company's profitability margin remains susceptible to raw material prices.

Intense competition from organised and unorganised players

KPTIL manufactures products and operates in a Power tool industry comprising several players in the unorganised sector resulting in high degree of fragmentation. The industry is characterised by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardised machinery for production. The competition leads to pricing pressures, which is likely to put pressure on the operating margin of the players operating in the industry. However, with distribution channel of 500 dealers and addition of new product line, the same is mitigated to some extent.

Liquidity: Adequate

KPTIL's adequate liquidity is characterised by sufficient cash accruals against repayment obligations, unutilised bank limits and free cash balance. GCA is expected to be in the range of ₹12-15 crore in FY25 against the repayment obligations to the tune of ₹3.62 crore in the same period. KPTIL had cash and cash equivalents to the tune of ₹0.92 crore as on March 31, 2024. KPTIL also derives comfort from the unutilised lines of cash credit facilities of around ₹5.49 crore (sanctioned limit: ₹30.25 crore). The average CC utilisation for the 12 months ended May 30, 2024, stood at around 74%. The company's current ratio stood at 1.57x as on March 31, 2024 (PY. 1.56x).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

CareEdge RATINGS

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Electrical equipment	Other electrical equipment

KPTIL was incorporated in 1976 as Kulkarni Black & Decker Limited, a JV between the Kulkarni family led by Prakash Kulkarni and Black & Decker, USA. In 1993, the entire stake of Black & Decker, USA, was acquired by the Kulkarni family and the company's name was subsequently changed to Kulkarni Power Tools Limited. KPTIL operates in three business segments - portable power tools, blowers, and E-Cart.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	149.76	151.63	NA
PBILDT	18.69	22.95	NA
PAT	8.42	12.06	NA
Overall gearing (times)	0.68	0.67	NA
Interest coverage (times)	4.31	5.80	NA

A: Audited; NA: Not available; Note: 'these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history: Annexure-2

Covenants of rated facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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		-	-	-	10.77	CARE BBB; Stable
Fund-based - LT-Term loan		-	-	March 2028	6.31	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing credit		-	-	-	18.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Packing credit in Indian rupee		-	-	-	1.48	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	21.75	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT-Term loan	LT	6.31	CARE BBB; Stable	-	1)CARE BBB-; Positive (07-Jul-23)	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)
2	Fund-based - LT-Cash credit	LT	10.77	CARE BBB; Stable	-	1)CARE BBB-; Positive (07-Jul-23)	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)
3	Fund-based - ST-Packing credit in Indian rupee	ST	1.48	CARE A3+	-	1)CARE A3 (07-Jul-23)	1)CARE A3 (21-Jul-22)	1)CARE A4+ (25-Aug-21)
4	Non-fund-based - ST-BG/LC	ST	21.75	CARE A3+	-	1)CARE A3 (07-Jul-23)	1)CARE A3 (21-Jul-22)	1)CARE A4+ (25-Aug-21)
5	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (07-Jul-23)	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)
6	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (07-Jul-23)	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)
7	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	18.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Positive / CARE A3 (07-Jul-23)	1)CARE BBB-; Stable / CARE A3 (21-Jul-22)	1)CARE BB+; Stable / CARE A4+ (25-Aug-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of rated facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
NA	NA
B. Non-financial covenants	
1. Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 10th of succeeding quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of CMA/Renewal data for beyond three months	Will attract penal interest as applicable, at rates circulated from time to time.
3. Non submission of Financial Statement of previous year within six months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.
4. Account remains overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	Will attract penal interest as applicable, at rates circulated from time to time.

Annexure-4: Complexity level of 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 - LT/ ST-CC/Packing credit	Simple
4	Fund-based - ST-Packing Credit in Indian rupee	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Akhil Goyal Director **CARE Ratings Limited** Phone: 91 22 6754 3437 E-mail: akhil.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Darshan Shah Assistant Director **CARE Ratings Limited** Phone: 91 22 6754 3408 E-mail: Darshan.shah@careedge.in Anup Nandkumar Purandare Assistant Director **CARE Ratings Limited** E-mail: anup.purandare@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in