

KG Petrochem Limited

April 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14.94 (Reduced from 22.99)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	91.00 (Enhanced from 83.25)	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) continues to derive strength from the vast experience of the promoters in terry towel business, company's established track record of operations with repeat orders from a reputed clientele, its moderate scale of operations and profitability with some recovery in current year and adequate liquidity despite an elongated operating cycle. The ratings, however, continue to remain constrained on account of company's 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 cyclicity 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 a prudent hedging mechanism.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Maintenance of Total Operating Income (TOI) above Rs.300 crore alongwith improvement in operating profitability and ROCE above 10%
- Maintenance of overall gearing below unity

Negative factors

- Decline in TOI below Rs.200 crore and decline in PBILDT margin below 7% 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 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 business experience of more than five decades. His son and Managing Director, Mr. Manish Singhal, is an IIT graduate and has an industry experience of more than two decades. Apart from the executive directors, the Board of Directors also consist of four independent directors as well as experienced professionals at various levels.

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

Established track record of operations

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 two decades in the terry towels & made ups segment, which contributed more than ~75% of its TOI over the past three years ended FY24.

Moderate scale of operations with some recovery in profitability in current year though moderate in comparison to previous years

KGPL's TOI remained moderate at Rs.334.35 crore in FY24 (Rs.306.32 cr. in FY23). It grew by 9% y-o-y due to increase in sales volume of terry towels with recovery in export demand from Q4FY24 onwards, however sales for the artificial leather segment declined from Rs.66.18 cr. in FY23 to Rs.44.60 cr in FY24.

The company registered scale of Rs.254.86 cr. in 9MFY25 with recovery in demand and correction in prices. The sales from the artificial leather stood at Rs.34.41 cr. in 9MFY25 (Rs.37.07 cr. in 9MFY24).

Operating margin of the company has witnessed continuous moderation over last two years ended FY24 to 6.48% (9.60% in FY23 and 12.04% in FY22), due to volatile input prices (cotton yarn and dyes & Chemicals) and constrained sales realizations owing to a slowdown in export market. However, with recovery in export demand and correction in input prices operating margin improved to 8.58% in 9MFY25.

For FY25, company is expected to register moderate growth in TOI alongwith some improvement in operating margin owing to recovery in terry towel demand and correction in raw material prices. However, considering significant moderation in profitability vis-a-vis previous years, extent of this recovery shall remain crucial from credit perspective. Company had concluded capex for manufacturing bedsheets in FY23, though, no major revenue has been registered from this segment in FY24 and in current year due to slowdown in demand. Revenue from the same is also envisaged to increase from Q1FY26 onwards, as indicated by the management.

Key weaknesses

Concentrated customer and geographical revenue profile though reputed clientele base

KGPL's terry towel and made-ups business is almost entirely dependent on the export market i.e., primarily to USA and partially to Chile, South America. During FY24, KGPL generated ~76% of TOI from exports (69% of TOI in FY23). In addition, the customer profile of KGPL is highly concentrated with top -10 customers forming ~68% of TOI (63% of TOI in FY223) in FY24. Customer profile of KGPL includes reputed retail chains such as Walmart Inc., Jay Franco & Sons etc. which reduces the counterparty credit risk to an extent. Also, company has an established relationship with these clients which enables repeat business from them, while it has also commenced sales to other regions to improve customer diversification. Nevertheless, any change in customer preference and/or political instability or economic slowdown in the major export markets could impact the operations of KGPL.

Leveraged capital structure and moderation in debt coverage indicators

The capital structure of KGPL remained moderately leveraged with overall gearing of 0.93x as on March 31, 2024 (P.Y. 0.96x). The Total Outside Liabilities / Net worth ratio continued to remain high at 1.39x in FY24 (1.51x in FY23). The debt coverage indicators of the company had deteriorated in last two years ending FY24 marked by PBILDT interest coverage of owing to lower profitability and stood moderate marked by total debt to GCA of 8.71x (6.09x times in FY23) and PBILDT interest coverage at 2.73 times (3.05 times in FY23) in FY24. However, it has improved in current year with PBILDT interest coverage of 4.35x in 9MFY25, with better profitability Return indicators also moderated significantly, as indicated by a Return on Capital Employed (RoCE) of around 6-8% registered in past two years ended FY24, vis-a-vis a RoCE of 12-13% registered in recent past

Continued subdued performance of the artificial leather business in FY24 with some improvement in current year

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 issues as well as subdued demand from end-user industries i.e., mainly footwear and automobile. This apart, the segment also faces intense competition from low-cost products. Sales of artificial leather declined from Rs.66.18 cr. in FY23 to Rs.44.60 cr. in FY24 which resulted in higher losses during the year. As articulated by the management, company has increased its focus on exports and on the automobile sector and has added few new customers in current year and sales of artificial leather segment stood at Rs.34.41 cr. in 9MFY25.

Susceptibility of profitability to volatile raw material prices and forex fluctuation though the latter is largely mitigated through prudent hedging mechanism

The 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 cyclicalities associated with textile industry, 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 and FY24 with slowdown in sales of key US retailers. However, traction has been witnessed from Q4FY24 onwards with recovery in demand and moderation in cotton prices. Overall, long-term demand outlook is expected to remain stable driven by factors such as increasing urbanization, changing lifestyle and growing fashion trends.

Liquidity: Adequate

The company has an adequate liquidity, marked by positive (though moderated) cash flow from operations of Rs.23.64 crore registered in FY24 (Rs.38.03 cr. in FY23) and sufficient cushion in GCA vs repayments. Utilization of fund-based working capital limits however remained high at 80% for past 12 months ended February 2025.

The business operations of KGPL are working capital intensive in nature marked by elongated operating cycle of 155 days in FY24 (162 days in FY23). KGPL needs to maintain sufficient inventory to meet demand resulting in inventory period of 80 to 110 days. Furthermore, KGPL offers credit period of ~60-100 days to its customers. While KGPL's customer profile includes reputed players from large retail chains which reduces the risk of delayed collection to an extent, there has been delayed recovery in one of its major customers.

As on March 31, 2024, KGPL had debtors of Rs.24.01 cr. o/s for more than 6 months, of which around Rs.11 cr were from artificial leather & consignment stockist segments, while remaining were from one of the clients in the terry towel segment. The company had entered into an agreement with this client in which the latter is likely to pay the older dues alongwith the new business, on advance basis and as indicated by the management the entire dues from these debtors were realised in current year.

The annual scheduled repayments are relatively lower in the range of Rs.3-10 cr. which are expected to be met from its envisaged cash accruals. Also, company has been sanctioned additional working capital limits of Rs.7.75 cr. in January 2025, thus aiding its liquidity. Nevertheless, given the working capital-intensive operations, recovery in profitability shall remain crucial for company's liquidity profile.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic 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 manufacturing 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 FY24. 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, 2024, 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, 2023 (A)	March 31, 2024 (A)	9MFY25 (Prov.)
Total operating income	306.32	334.35	254.87
PBILDT	29.54	21.67	21.89
PAT	7.79	0.93	4.66
Overall gearing (times)	0.96	0.93	NA
Interest coverage (times)	3.05	2.73	4.35

A: Audited, Prov.: Provisional; NA: Not Available, Note: these are latest available financial results

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	1.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	December 2027	13.94	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		-	-	-	55.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	5.00	CARE A3

Annexure-2: Rating history for 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	13.94	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Jun-24)	1)CARE BBB; Stable (19-Jul-23)	1)CARE BBB; Stable (01-Sep-22)	1)CARE BBB; Stable (01-Nov-21)
2	Fund-based - LT-Cash Credit	LT	1.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Jun-24)	1)CARE BBB; Stable (19-Jul-23)	1)CARE BBB; Stable (01-Sep-22)	1)CARE BBB; Stable (01-Nov-21)
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 (04-Jun-24)	1)CARE BBB; Stable / CARE A3+ (19-Jul-23)	1)CARE BBB; Stable / CARE A3+ (01-Sep-22)	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	55.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (04-Jun-24)	1)CARE BBB; Stable / CARE A3+ (19-Jul-23)	1)CARE BBB; Stable / CARE A3+ (01-Sep-22)	1)CARE BBB; Stable / CARE A3+ (01-Nov-21)
5	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A3	1)CARE A3 (04-Jun-24)	1)CARE A3+ (19-Jul-23)	1)CARE A3+ (01-Sep-22)	1)CARE A3+ (01-Nov-21)
6	Fund-based - ST-EPC/PSC	ST	10.75	CARE A3	1)CARE A3 (04-Jun-24)	1)CARE A3+ (19-Jul-23)	1)CARE A3+ (01-Sep-22)	1)CARE A3+ (01-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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