

KPT Industries Limited

July 21, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.18 (Enhanced from 13.90)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	18.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)
Short Term Bank Facilities	18.23	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	51.41 (₹ Fifty-One Crore and Forty-One Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of KPTIL industries Limited (KPTIL, formerly known as Kulkarni Power Tools Limited) is on the back of healthy growth in its scale of operations in FY22 (Audited; FY refers to the period April 1 to March 31) with pickup in demand from power tool industries along with improvement in its operating profitability. CARE also takes note of better than projected performance of KPTIL in FY22 and expected improvement in diversification with improvement in E-Cart sales going ahead. The ratings continue to derive strength from experienced promoters and long operational track record of KPTIL over four decades in the electric power tools industry and established distribution channel. The above rating strengths are, however, tempered by the modest scale of operations, working capital intensive nature of operations, susceptibility of profitability to volatility of raw material prices, fragmented & intense competition in the electric power tools industry.

Rating Sensitivities

Positive Sensitivity: Factors that could lead to positive rating action/upgrade:

- ✓ Ability of the company to scale up its operations above Rs 200 crores along with improvement in PBILDT margin on a sustained basis.
- ✓ Improved diversification with substantial improvement in sales from Ekart.
- ✓ Improvement in overall gearing & total debt to GCA below 0.70x & 2.5x respectively on a sustained basis.

Negative Sensitivities: Factors that could lead to negative rating action/downgrade

- Deterioration in overall gearing more than 1.40x on sustained basis.
- Decline in profitability with PBILDT margin below 8%
- Operating cycle deteriorating to more than 160 days on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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

KPTIL is currently managed by Mr. P.A Kulkarni as Executive chairman and Mr. Dilip Kulkarni Managing Director has an extensive experience more than four decades in manufacturing of electric power tools and looks after the overall management of the company. The promoters are backed by an experienced team who currently head various divisions in the company. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry.

Improved yet modest scale of operations along with healthy profitability margins

During FY22, KPTIL's TOI improved by 14% y-o-y to Rs.116.48 crore on the back of robust demand from Power tool division. KPTIL's operating profit (PBILDT) margin also improved on the back of better product mix along with improved volumes from its power tool segment. The PBILDT margin improved by 223 bps to 11.51% in FY22. Further the company registered a PAT margin of 4.30% in FY22 as against 2.10% in FY201 in line with the improvement in PBILDT margin. The overall performance during FY22 has remained better than previous year as well as projections considered at the time of last review. With improvement in profitability, return ratios also improved, with return on capital employed (ROCE) of ~14.64% in FY22 as against ~10.98% in FY21.

Improved capital structure and debt protection metrics

Over the years, with accretion of profits to its net-worth coupled with excess repayment long-term debt and moderately utilized working capital limits, the capital structure of the company remained comfortable. As on March 31, 2022, total debt stood at Rs.

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

33.83 crores (PY.28.51 crore). The overall gearing was 0.95x as on March 31, 2022 (as compared to 0.91x in FY21 and 1.33x as on March 31, 2020). Further, the debt to equity remained comfortable at 0.31x (PY 0.55x). With the comfortable capital structure and improved profitability, the debt coverage indicators also improved yet remain modest in FY22. The total debt/GCA, which stood at 4.79x as at the end of FY22 (as compared to 6.21x in FY21 and 5.28x in FY20) and the PBILDT interest coverage ratio also was at 3.68x in FY22.

Diversification set to improve with expected improvement in E-Cart sales

KPTIL operates under three primary business segments - Portable Power Tools, Blowers, E-Cart segment. The major income is derived from portable power tools segment followed by Blowers division and E-Cart segment. On the back of inflow of orders from existing customers as well as new customers in the E-Cart segment, the share of revenue from E-Cart is expected to improve, thus adding to the diversification going ahead.

Wide geographical diversification along with wide spread of dealer network

The customer base of KPTIL is diversified with top 10 customers contributing to around 17% of total sales. KPTIL's power tools products are sold through a distribution network of around 456 dealers through a central distribution depot. The company procures its raw material from domestic (around 69%) as well as overseas market. Diversified customer base reduces the counterparty risk to a certain extent.

Key Rating Weaknesses

Working capital intensive operations

KPTIL operates in the business which depends heavily on working capital borrowings with funds mainly blocked in an inventory and receivables. The company generally stocks inventory of 100 to 110 days and finished goods for 55 to 65 days led by wide variety of products mainly under power tools division, the blower's division is mostly made to order. Further KPTIL provides credit period 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. The operating cycle of KPTIL has improved to 157 days in FY22 as compared with 167 days in FY21. Efficient management of working capital cycle and improvement in liquidity position will remain a key rating sensitivity

Susceptibility of profitability to volatility in raw material prices

The primary raw material of KPTIL comprises of 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 67% of total cost of sales. The ability of the company to pass on the increased raw material cost to its customers is limited owing to its presence in highly competitive industry. Accordingly, profitability margin of the company remains susceptible to raw material prices. The company is sensitive to any adverse movement in prices of raw materials and ability of the company to pass on the same to its customers is limited with existing competition.

Intense competition from organized and unorganized players

KPTIL manufactures products and operates in a Power tool industry which comprises of several players in the unorganized sector resulting in high degree of fragmentation. The industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized 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 456 dealers and addition of new product line, the same is mitigated to some extent.

Industry Outlook Stable:

The global power tools market is projected to grow from \$26.61 billion in 2022 to \$35.13 billion by 2029, at a CAGR of 4.0% in forecast period, 2022-2029 owing to the increasing demand for do-it-yourself (DIY) techniques among household consumers. Electric power tools are also used in a wide range of industries including construction, automotive, aerospace, energy, and shipbuilding. The key factors fuelling the growth of the market growing adoption of cordless power tools, rising demand for fastening tools in industrial environments, and growing construction industry in emerging economies are the key factors driving the growth of the power tools market. The power tools market offers several opportunities for manufacturers to focus smart connectivity for power tools. Currently, the Indian power tools market is swamped with Chinese products. Due to rapid urbanization and industrialization, construction sector is expected to dominate the power tools market in forecast period. The power tools division of KPTIL contributed about 75% of total revenues during FY22.

Liquidity Analysis: Adequate

Liquidity of KPTIL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations, unutilized bank limits and free cash balance. GCA is expected to be in the range of Rs.7-8 Crore. KPTIL had a cash and cash equivalent to the tune of Rs.3.06 crore as on March 31, 2022, and has cash balance of around Rs.4-5 crore as on June 30, 2022. Furthermore, KPTIL also derives comfort from the unutilized lines of cash credit facilities of around Rs.6.02 crore (sanctioned limit: Rs.25.13 crore). The average CC utilization for the 12 months ended May 30, 2022, stood at around 76%. Current ratio of the company stood at 1.55x as on March 31, 2022 (PY. 1.58x). As against this the company has a repayment obligation of Rs5.38 in FY23.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Nonfinancial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

KPTIL was incorporated in 1976 as Kulkarni Black & Decker Limited, a joint venture (JV) between the Kulkarni family led by Mr. Prakash Kulkarni and Black & Decker, USA. During 1993, the entire stake of Black & Decker, USA, was acquired by the Kulkarni family and the name of the company was subsequently changed to Kulkarni Power Tools Limited. KPTIL operates in four business segments - portable power tools, blowers, windmills, and E-Cart.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022(A)	Q1FY23
Total operating income	107.19	102.16	116.48	NA
PBILDT	13.46	9.74	13.40	NA
PAT	4.98	2.15	5.01	NA
Overall gearing (times)	1.33	0.91	0.95	NA
Interest coverage (times)	2.35	2.12	3.61	NA

A: Audited.NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: 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 for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	8.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	5.90	CARE BBB-; Stable
Fund-based - ST-Packing Credit in Indian rupee		-	-	-	1.48	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	16.75	CARE A3
Fund-based - LT-Term Loan		-	-	August 2022	0.74	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March 2024	0.54	CARE BBB-; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	18.00	CARE BBB-; Stable / 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 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	8.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)
2	Fund-based - LT-Cash Credit	LT	5.90	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)
3	Fund-based - ST-Packing Credit in Indian rupee	ST	1.48	CARE A3	-	1)CARE A4+ (25-Aug-21)	1)CARE A4 (05-Nov-20)	1)CARE A4 (14-Oct-19)
4	Non-fund-based - ST-BG/LC	ST	16.75	CARE A3	-	1)CARE A4+ (25-Aug-21)	1)CARE A4 (05-Nov-20)	1)CARE A4 (14-Oct-19)
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	-	-	-	-	-	1)Withdrawn (14-Oct-19)
6	Fund-based - LT-Term Loan	LT	0.74	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)
7	Fund-based - LT-Term Loan	LT	0.54	CARE BBB-; Stable	-	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)
8	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	18.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+ (25-Aug-21)	1)CARE BB; Stable / CARE A4 (05-Nov-20)	1)CARE BB; Stable / CARE A4 (14-Oct-19)

Annexure 3: Detailed explanation of covenants of the rated facilities: NA

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 10 th 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 the period beyond 3 months	Will attract penal interest as applicable, at rates circulated from time to time.
3. Non submission of Financial Statement of previous year within 6 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 for this Company

Sr. No.	Name of 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: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the 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.

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