Khosla Profil Private Limited

March 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	49.48 (Enhanced from 43.97)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	61.00 (Enhanced from 56.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**110.48 (Rs. One Hundred Ten Crore and Forty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Khosla Profil Private Limited (KPPL) continues to derive strength from the experience of the promoters in the technical textile business, diversified product profile, stable profitability margins over period FY17-FY20 and moderate customer concentration risk. The ratings however continue to be tempered by the leveraged capital structure and working capital intensive nature of operations, project risk associated with capacity expansion plan of the company, exposure to volatility in raw material prices and foreign exchange fluctuation risk imparting volatility to the profitability.

Positive Factors:

- Improvement in operating cycle with collection period below 60 days.
- Sustainable improvement in PBILDT margin above 20%.

Negative Factors:

- Time or cost overrun in capacity expansion project.
- Increase in overall gearing above 3.00x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

KPPL started operations in 1979 and was established by Mr. Pramod Khosla and his family members. KPPL is currently managed by Mr. Pramod Khosla (Chairman & Managing Director) and Mr. Raj Khosla (brother of Mr. Pramod Khosla) who have around three decades of experience in the Technical Textile business.

Diversified product profile

KPPL is engaged in the manufacturing of range of products which includes industrial and technical fabrics, filter fabrics, air slide fabrics, filter press fabrics, centrifuges bags, etc. which are made from cotton, poly-cotton, polypropylene, polyester, nylon, etc. The company has a presence right from weaving (filter fabrics), dyeing/processing of the fabrics to made ups (filtration bags). It caters to varied clients across industries. The end-user industries which use the products manufactured by KPPL include mining and metals, pharmaceuticals, automobiles, oil refineries, petrochemicals, etc. KPPL has manufacturing facilities right from Fibre to Made-ups. With an area of 1.5 Lac sq. mtrs, the plant is equipped with highly advanced and modern machineries like twisting, warping, weaving, checking, processing, coating, thermosetting, calendaring, automated cutting & stitching facilities that helps in delivering a wide range of products.

Stable operating performance and profitability

KPPL reported a stable operating performance with Total Operating Income increasing by 22.5% y-o-y from FY18 to FY19. The growth was volume driven on the back of increased capacities. However, gross sales moderated by 5% in FY20 due to impact of COVID-19 on exports of the company. Exports continued to contribute around 67% of the total sales in FY20. For 9MFY21, KPPL reported gross sales of Rs.132 crore with PBILDT margin of 17.90% as against total sales of Rs. 147 crore and PBILDT margin of 17.10% in 9MFY20. The major export markets of KPPL are USA, Australia, UK, Turkey and Hong Kong. Profitability margins continued to remain stable with PBILDT margin at 17.43% for FY20 vis-à-vis 17.05% during FY19 due to fall in raw material prices. KPPL's profitability improved with PAT margin at 5.96% in FY20 (PY: 5.56%) despite higher depreciation effect of recently completed capex. KPPL's profit after tax grew with CAGR of 21% for period FY16 to FY20.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Moderate customer and supplier concentration risk
KPPL is into manufacturing of industrial technical fabrics and filter fabrics. These products find their application in tyre industry, filtration plants, chemicals, dyes etc which are used across industries such as chemicals, paper & pulp etc. Customer concentration risk is moderate, with top 5 customers contributing to 43% of the total sales during FY20. (PY: 43%) Customer profile has also remained consistent. KPPL has long association with their customers and regularly receive repeat orders. Further, KPPL is also looking to tap after-sales market, which caters to OEM's need for replacement material. With long-standing relationships with OEMs, KPPL can take advantage of their vast global network and reach to larger market in coming years. Supplier profile has also remained consistent while supplier concentration risk improved as contribution of top 5 suppliers to total purchases of the company decreased to 47% in FY20. (PY: 59%).

Key Rating Weaknesses

Leveraged capital structure
KPPL's financial risk profile continued to be marked by a leveraged capital structure and moderate debt coverage indicators. KPPL's leveraged capital structure is marked by significant increase in debt over period FY17-FY19 for planned capex for capacity expansion and backward integration. Overall gearing (including LC acceptances) stood at 1.55x as on March 31, 2020 vis-à-vis 1.84x as on March 31, 2019. Total debt/GCA remained stable at 4.70x for FY20 (PY: 4.77x) while Total debt to Cash flow from operations improved to 3.31x for FY20 (PY: 4.37x). The interest coverage ratio improved marginally to 4.00x in FY20 from 3.87x in FY19 owing to stable profitability margins over last 3 years (FY18-FY20).

Working capital intensive nature of operations
Major raw materials consumed are cotton, poly-cotton, polypropylene, polyester, nylon, etc. KPPL procures them primarily from the domestic players. Average inventory period marginally deteriorated to 78 days in FY20 from 64 days in FY19 due to restrictions on inventory movement following COVID-19 outbreak. The company stocks cotton, polyester, polypropylene, etc. Average collection period remained flat at 90 days in FY20. (PY: 88 days). Thus, average collection period continues to remain high. KPPL receives a reasonable credit period of 50-60 days from its suppliers. Thus, operations are working capital intensive in nature, resulting in dependence on the working capital borrowings. As a result, average maximum utilization for fund based working capital limits was high at 86% during 12-month period ending in January, 2021.

Susceptible to fluctuation in raw material prices
Major raw materials consumed by KPPL are cotton, poly-cotton, polypropylene, polyester, nylon, etc. Cotton prices are volatile in nature driven by various factors like, area under cultivation, yield for the year, government regulation and pricing etc. On the other hand, polyester being a derivative of crude oil is continuously affected by movement in crude oil prices. Hence any adverse volatility in the raw material prices may affect the company's margins. Major raw materials consumed are cotton, poly-cotton, polypropylene, polyester, nylon, etc. which is procured domestically and also imported.

Susceptible to fluctuations in foreign exchange rates
During FY20, KPPL carried out gross sales of Rs.124 crore (67% of its sales) from the overseas market (mainly USA, UK and Australia), while its imports remained at Rs.4.08 crore, hence making it a net exporter. Therefore, KPPL is exposed to forex risk. However, to mitigate impact of forex volatility, KPPL hedges round 60% of forex exposure. Ability to hedge forex risk remains critical from KPPL's profitability perspective.

Project risk partially mitigated
In FY16-19, KPPL had commenced undertaking a capex of Rs.53 crore with a total debt of Rs.33 crore. The company was expected to commission new machinery in March, 2020, which was delayed due to unavailability of service engineers from machinery supplier following travel restriction. However, the management has undertaken this installation in phased manner with help of local engineers and guidance from supplier. Further, KPPL is also incurring expenditure on line balancing to improve the productivity of the existing assembly lines. Capacity utilization fell below 80% in FY20 due to production constrains at the plant. The company has added new building and machinery in FY20-21. The company has started its operation in this unit and now is in process of integration of manufacturing processes. New capacity, which was added in FY20-21 will have impact on top line and bottom line of the company from FY22. The expansion undertaken is expected to aid KPPL in increasing its economies of scale. KPPL is also considering backward integration and capacity expansion of the same. It will help the company to achieve greater control on raw material prices and improve its operating margins. Ability of the company to optimally utilize the expanded capacities and maintain operating profits also to manage working capital cycle effectively would remain a key monitor able.

Liquidity analysis: Adequate
KPPL has cash and bank balance of Rs. 6.76 crore and current ratio at 1.32x as on March 31, 2020. The company has working capital utilization of 86% of its fund-based facilities for 12-month period ended on January, 2021. KPPL has repayment of Rs.15 crore against expected GCA of Rs.22 crore in FY21. As per the management, the company has repaid all term loan obligations by March 15, 2021. Considering above, KPPL's liquidity profile remains adequate to meet any incremental working capital requirements.

Analytical approach: Standalone

Applicable Criteria
Rating of Short-Term instruments
CARE's policy on Default recognition
Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings
Rating methodology – Manufacturing companies
Financials Ratio-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Khosla Profil Pvt. Ltd. (KPPL), established by Mr. Pramod Khosla and his family members, started operations in 1979. KPPL is engaged in manufacturing of industrial and technical fabrics filter fabrics, air slide fabrics, etc. which are made from cotton, polypropylene, polyester, etc. The company has a presence right from weaving (filter fabrics) to dyeing/processing to made-ups (filtration bags). Its main manufacturing facilities are located at Wada, Maharashtra.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	203.67	193.77
PBILDT	34.73	33.77
PAT	11.32	11.54
Overall gearing (times)	1.98	1.77
Interest coverage (times)	3.87	4.00

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July, 2026	39.48	CARE BBB; Stable
Fund-based - ST-EPC/PSC	-	-	-	25.00	CARE A3+
Fund-based - ST-FBN / FBP	-	-	-	20.00	CARE A3+
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB; Stable
Fund-based - ST-Working Capital Limits	-	-	-	1.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	14.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	39.48	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Mar-20)	1)CARE BBB; Stable (15-Mar-19) 2)CARE BBB; Stable (03-May-18)	1)CARE BBB; Stable (05-Feb-18)
2.	Fund-based - ST-EPC/PSC	ST	25.00	CARE A3+	-	1)CARE A3+ (04-Mar-20)	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)
3.	Fund-based - ST-FBN / FBP	ST	20.00	CARE A3+	-	1)CARE A3+ (04-Mar-20)	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Mar-20)	1)CARE BBB; Stable (15-Mar-19) 2)CARE BBB; Stable (03-May-18)	1)CARE BBB; Stable (05-Feb-18)
5.	Fund-based - ST-Working Capital Limits	ST	1.00	CARE A3+	-	1)CARE A3+ (04-Mar-20)	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)
6.	Non-fund-based - ST-Letter of credit	ST	14.00	CARE A3+	-	1)CARE A3+ (04-Mar-20)	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (04-Mar-20)	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)

Annexure 3: Complexity level of various instruments rated for this Company

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.	Fund-based - ST-FBN / FBP	Simple
5.	Fund-based - ST-Working Capital Limits	Simple
6.	Non-fund-based - ST-Bank Guarantees	Simple
7.	Non-fund-based - ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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