

KPT Industries Limited
(Formerly known as Kulkarni Power Tools Limited)

August 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.90 (Reduced from 17.04)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Long Term / Short Term Bank Facilities	18.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus)	Revised from CARE BB; Stable / CARE A4 (Double B; Outlook: Stable / A Four)
Short Term Bank Facilities	18.23	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Facilities	50.13 (Rs. Fifty Crore and Thirteen Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of KPT industries Limited (KPTIL, formerly known as Kulkarni Power Tools Limited) takes into account of improvement in KPTIL's financials risk profile marked by stable profitability, improved capital structure and modest debt protection metrics during FY21. CARE also takes note of better than projected performance of KPTIL in FY21 and expected improvement in diversification with expected improvement in e-cart sales going ahead.

The ratings continue to be constrained 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.

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.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade.

- Ability of the company to scale up operations above Rs 170 crores along with improvement in PBILDT margin to more than 10% on sustainable basis.
- Improved diversification with revenue contribution from three primary segment over 20% each on a sustained basis
- Improvement in total debt/GCA to lower than 2.5x

Negative Factors- Factors that could lead to negative rating action/downgrade.

- Any un-envisaged debt funded capex leading to deterioration in overall gearing levels to more than 1.50x
- Decline in profitability with PBILDT margin below 7%
- Operating cycle deteriorating to more than 180 days on sustained basis

Detailed description of the key rating drivers

Key Rating weaknesses

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 70% 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.

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

¹Complete definitions of the ratings assigned are available at HYPERLINK "<http://www.careratings.com>" www.careratings.com and in other CARE publications.

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.

Working capital intensive nature of 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 85 to 90 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. Efficient management of working capital cycle and improvement in liquidity position is a key rating sensitivity.

Impact of COVID-19 on business operations:

The operations of the company were temporarily shut post the announcement of nationwide lockdown. The company resumed operations from first week of June 2020 and the operations have gradually improved from August 2020 and currently the company is operating at pre-COVID level.

Liquidity Analysis: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations, unutilized bank limits and free cash balance. GCA is expected to be in the range of Rs.7-8 Crore against the repayment obligations in FY22 to the tune of Rs.6.64 crore. However, going forward, the repayment obligations are expected to be in the range of Rs.5-6 crore for FY22 against which KPTIL is expected to generate GCA of around Rs.8-10 crore. KPTIL had a cash and cash equivalent to the tune of Rs.0.36 crore as on March 31, 2021 and has cash balance of around Rs.3-4 crore as on July 30, 2021. Furthermore, KPTIL also derives comfort from the unutilized lines of cash credit facilities of around Rs.16.50 crore (sanctioned limit: Rs.25.13 crore). The average CC utilization for the 12 months ended June 30, 2021, stood at around 40% (PY 90%). Current ratio of the company stood at comfortable of 1.59x as on March 31, 2021 (PY. 1.36x).

Industry Outlook Stable:

The power tools market is projected to grow at a CAGR of 4.6% from 2021 to 2025 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. In 2021, the power tools market size in India was estimated to reach approximately 866.4 million U.S. dollars. The power tools market size in India was forecast to have continuous growth till the end of the forecast period, reaching over 1.3 billion dollars in 2027, more than doubling from 679 million dollars in 2015. The power tools division of KPTIL contributed about 73% of total revenues during FY21.

Key Rating Strengths

Experienced promoters with long established track record over three and half decade

KPTIL is currently managed by Mr. P.A Kulkarni as (Vice chairman and 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.

Diversification set to improve with expected improvement in e-cart sales along with diversified customer base

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. The company is expecting 1600 electric vehicle orders from E-cart division in FY22. The customer base of KPTIL is diversified with top 10 customers contributing to around 17% of total sales. The company procures its raw material from domestic (around 77%) as well as overseas market. Diversified customer base reduces the counterparty risk to a certain extent.

Moderate scale of operations and stable profitability despite disruptions due to COVID-19

Despite COVID-19 led disruptions and lockdown for almost three months of FY21, KPTIL registered marginal decline of 4% on Y-o-Y basis in FY21. The scale of operations remained modest at Rs 102.44 crores in FY21 as against 107.19 crores in FY20. PBILDT margin deteriorated to 9.88% during FY21 as against 12.56% in FY20. Profitability margins although on a full year FY21 basis was impacted however, on a sequential quarter basis, the PBILDT margins witnessed a significant improvement since Q2FY21. Further the company registered a PAT margin of 2.10% in FY21 as against 4.64% in FY20 largely in line with decline in PBILDT margin. Moreover, the performance during FY21 was better than projected in terms profitability Sales & liquidity.

As a result of continuous order flow from power tools division, the company has been able to register a turnover of around Rs.23 crore in Q1FY22. The PBILDT margin during Q1FY21 improved to 10.50% compared to losses in Q1FY21, led by increased demand from Power tool division.

Comfortable capital structure and debt protection metrics

Over the years, with accretion of profits to its net-worth coupled repayment long-term debt and sparingly utilized working capital limits, the capital structure of the company remained comfortable. As on March 31, 2021, total debt reduced and stood at Rs. 28.51 crores (PY.38.61 crore). The same comprised of working capital borrowings of Rs. 11.30 (PY.22.48 crore) (40% of total debt) and term loan of Rs. 17.20 crore (60% of total debt) as against tangible net worth of Rs 31.10 crore. The scheduled debt repayments, accretion of profits to reserves resulted in improvement in the overall gearing ratio, which stood at 0.91x as on March 31, 2021 (as compared to 1.33x as on March 31, 2020). Further debt to equity stood comfortable at 0.55x (PY 0.50x). With the strengthened capital structure and improved profitability, the debt coverage indicators continue to remain modest in FY21. The total debt/GCA, which stood at 6.15x as at the end of FY21 (as compared to 5.28x in FY20 and 6.81x in FY19) and the PBILDT interest coverage ratio also was at 2.16x in FY21.

Analytical approach: Standalone

Applicable Criteria:

[CARE's Criteria on assigning outlook and credit watch to Credit Ratings.](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: 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 (Rs. crore)	FY20 (A)	FY21 (A)	Q1FY21 (UA)	Q1FY22 (UA)
Total operating income	107.19	102.44	12.89	22.70
PBILDT	13.46	10.12	(1.11)	2.39
PAT	4.98	2.15	(3.08)	0.53
Overall gearing (times)	1.33	0.91	-	
Interest coverage (times)	2.35	2.16	(0.87)	2.65

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

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	-	-	March 2024	5.85	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	5.90	CARE BB+; Stable
Fund-based - ST-Packing Credit in Indian rupee	-	-	-	1.48	CARE A4+
Non-fund-based - ST-BG/LC	-	-	-	16.75	CARE A4+
Fund-based - LT-Term Loan	-	-	August 2022	0.86	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	March 2024	1.29	CARE BB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	18.00	CARE BB+; Stable / CARE A4+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	5.85	CARE BB+; Stable	-	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)
2.	Fund-based - LT-Cash Credit	LT	5.90	CARE BB+; Stable	-	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)
3.	Fund-based - ST-Packing Credit in Indian rupee	ST	1.48	CARE A4+	-	1)CARE A4 (05-Nov-20)	1)CARE A4 (14-Oct-19)	1)CARE A4 (19-Sep-18)
4.	Non-fund-based - ST-BG/LC	ST	16.75	CARE A4+	-	1)CARE A4 (05-Nov-20)	1)CARE A4 (14-Oct-19)	1)CARE A4 (19-Sep-18)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	-	1)Withdrawn (14-Oct-19)	1)CARE A4 (19-Sep-18)
6.	Fund-based - LT-Term Loan	LT	0.86	CARE BB+; Stable	-	1)CARE BB; Stable (05-Nov-20)	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)
7.	Fund-based - LT-Term Loan	LT	1.29	CARE BB+; Stable	-	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 BB+; Stable / CARE A4+	-	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

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 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

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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