

KPT Industries Limited
(Formerly known as Kulkarni Power Tools Limited)
 November 05 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	17.04 (Reduced from 18.77)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	18.00 (Enhanced from 12.00)	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four)	Reaffirmed
Short Term Bank Facilities	18.23 (Enhanced from 13.88)	CARE A4 (A Four)	Reaffirmed
Total Facilities	53.27 (Rs. Fifty-Three Crore and Twenty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of long term and short term ratings to the bank facilities of KPT industries Limited (KPTIL, Formerly known as Kulkarni Power Tools Limited) continue to be constrained by the working capital intensive nature of operations, the susceptibility to volatility of raw material prices, presence in fragmented electric power tool industry leading to intense competition. Furthermore, CARE takes note of the impact of COVID-19 on the business operations and financial performance of the company during H1FY21.

The ratings continue to derive strength from extensive experience of promoters, the long operational track record of over four decades in the electric power tools industry, diversified product portfolio, and financial risk profile marked by growth in revenue, stable profitability margins along with moderate capital structure and debt coverage indicators during FY20 (refers to the period from April 01 to March 31) and addition of new product line with higher margins.

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

- Ability of the company to scale up operations while maintaining its operating profit margins between 12-14% going forward on a sustained basis.
- Sustained improvement in overall gearing to less than 1.00 times and Total Debt/Gross cash accruals below 4.00 times.

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

- Decline in operating profit margin below 8% on a sustained basis.
- Significant elongation in working capital cycle from current levels, affecting liquidity position of the Company.

Detailed description of key rating drivers**Key Rating weaknesses****High working capital intensive nature of operations**

KPTIL's operations are working capital intensive in nature on account of funds being blocked in inventory and debtors. The company offers a wide range of products from Power tool division and E-Cart division and majority of the raw material is imported raising the need to maintain adequate stock to ensure uninterrupted production. Further, the company provides a credit period of around 90 days to its customers, which is sometimes extended to 110 days resulting in higher collection period. High inventory holding and collection period leads to long operating cycle for the company. KPTIL funds its working capital requirements primarily through cash credit facility, the average utilization of which stood high at 85% during the last 12 months ended October 20, 2020. Efficient management of working capital cycle and improvement in liquidity position is a key rating sensitivity.

Risk associated with 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 is susceptible to raw material prices. The same can be witnessed through volatile margins in the past which was in the range of 10-12%.

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

Intense competition from organized and unorganized players

KPT 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.

Impact of COVID-19 on business operations:

The nationwide lockdowns in major economies to contain the spread of COVID-19 has taken its toll on global economy. The operations of the company were temporarily shut post the announcement of nationwide lockdown in India. Till March 25, 2020, company's operations were stable and running smoothly and there was no material impact of Covid-19 in FY20 performance. However, KPT's operations were severely impacted by the pandemic in Q1FY21 as the operations were completely shut for 2.5 months. The company resumed operations from mid-June 2020 and registered an operating income of Rs.12.89 Crore with loss at operating and net level. The sales/realizations/profitability have reached pre-Covid levels post August 20'. Currently the company is operating at pre-COVID level (i.e. 75% capacity utilization) at its manufacturing facility located at Kolhapur and is operating with 75% labour force. The company's ability to sustain and maintain its financial risk profile amidst the pandemic and uncertain economic scenario will be the key rating monitorable.

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.

Wide product portfolio along with diversified customer and supplier base

KPTIL operates under four business segments - Portable Power Tools, Blowers, Windmills & E-Cart segment. The major income is derived from portable power tools segment followed by Blowers division, E-Cart segment, and Windmill division. The wide product portfolio of the company shields the company from the risk of significant drop in revenue due to slowdown in demand from one segment. The customer and supplier base of KPTIL is diversified with top 10 customers and suppliers contributing to around 22.21% and 55.23% of sales and purchases respectively. The company procures its raw material from domestic (around 77%) as well as overseas market. Further, KPTIL's power tools products are sold through a distribution network of more than 456 dealers through a central depot. Diversified supplier and customer base reduces the counterparty risk to a certain extent.

Moderate scale of operations and profitability

Total operating Income (TOI) of KPTIL registered a y-o-y stable growth during FY20 as compared with FY19 and stood at Rs. 107.26 crore during FY20 (as against Rs.106.46 crore during FY19). Further, the profitability of the company also improved marginally owing to execution of high margin orders under E-cart segment. However, due to the lockdown, in Q1FY21 (UA, refers to April 1 to June 30), the company achieved a turnover of Rs.12.89 crores (P.Y.Rs.26.15 Crore) and registered loss at operating level and net level. The performance of the company in the future hinges on the depth of the outbreak, its spread and its duration. The ability of the company to increase contribution from higher margin order thereby favorably affecting the blended profitability margin will be the key rating monitorable.

Moderate capital structure and debt protection metrics

As on March 31, 2020, total debt stood at Rs. 38.61 crore. The same comprised of working capital borrowings of Rs. 22.48 crore (58% of total debt) and term loan of Rs. 14.38 crore (42% of total debt) as against a tangible net-worth base of Rs.28.94 crore as on March 31, 2020. The scheduled debt repayments, accretion of profits to reserves resulted in improvement in the overall gearing ratio, which stood at 1.33x as on March 31, 2020 (as compared to 1.63x as on March 31, 2019). Furthermore, with reducing debt levels and improved profitability, the debt coverage indicators of the firm also improved marginally as reflected by the total debt/GCA improved of 5.28x as at the end of FY20 (P.Y. 6.82x) and interest coverage of 2.35x as at the end of FY20 (P.Y. 2.10x).

Liquidity analysis: Stretched

Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and low cash balance. Further, the company has sought moratorium for all its bank facilities as part of the Covid-19 Regulatory Package announced by Reserve Bank of India (RBI). Moreover, the company has availed additional COVID loan of Rs 5.86 crore for working capital

requirements. The ability of the company to make payments as per the revised schedule will be a key rating monitorable. KPTIL had cash and cash equivalent to the tune of Rs.1.17 crore as on March 31, 2020 and has unencumbered cash balance of around Rs.5 crore as on September 20, 2020. Current ratio of the company stood at 1.36x as on March 31, 2020 as against 1.21x as on March 31, 2019. Cash flow from operations improved and stood at Rs.11.20 crore in FY20 as against Rs.9.85 crore in FY19. Improvement was mainly on account of reduced receivables and inventory levels during the end of year. The ability of the company to further improve its collection period, leading to lower average utilizations of bank limits will be the key rating monitorable.

Industry Outlook:

The power tools market is projected to grow at a CAGR of 4.6% from 2020 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. The key factors fueling the growth of the market are growing adoption of cordless power tools, rising demand for fastening tools in industrial environments, and growing construction industry in emerging economies. The key factors driving the growth of the power tools market are 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 71.01% of total revenues during FY20.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch'

Criteria for Short Term Instruments

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology : Manufacturing Companies

Liquidity Analysis of Non-Financial Entities

About the Company

KPTIL (CIN L29130MH1976PLC019147) 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)	FY19 (A)	FY20 (A)	Q1FY20 (UA)	Q1FY21 (UA)
Total operating income	106.46	107.19	26.15	12.89
PBILDT	12.46	13.46	3.06	(1.11)
PAT	3.57	4.98	0.76	(3.08)
Overall gearing (times)	1.63	1.33	-	-
Interest coverage (times)	2.10	2.35	2.24	(0.87)

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	8.45	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	1.20	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	March 2024	1.49	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 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	8.45	CARE BB; Stable	-	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)	1)CARE B+; Stable (22-Feb-18)
2.	Fund-based - LT-Cash Credit	LT	5.90	CARE BB; Stable	-	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)	1)CARE B+; Stable (22-Feb-18)
3.	Fund-based - ST-Packing Credit in Indian rupee	ST	1.48	CARE A4	-	1)CARE A4 (14-Oct-19)	1)CARE A4 (19-Sep-18)	1)CARE A4 (22-Feb-18)
4.	Non-fund-based - ST-BG/LC	ST	16.75	CARE A4	-	1)CARE A4 (14-Oct-19)	1)CARE A4 (19-Sep-18)	1)CARE A4 (22-Feb-18)
5.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (14-Oct-19)	1)CARE A4 (19-Sep-18)	1)CARE A4 (22-Feb-18)
6.	Fund-based - LT-Term Loan	LT	1.20	CARE BB; Stable	-	1)CARE BB; Stable (14-Oct-19)	1)CARE BB-; Stable (19-Sep-18)	1)CARE B+; Stable (22-Feb-18)
7.	Fund-based - LT-Term Loan	LT	1.49	CARE BB; Stable	-	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 (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 month	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 remain 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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