

## Khosla Profil Private Limited

March 04, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities	43.97	<b>CARE BBB; Stable</b> [Triple B, Outlook: Stable]	<b>Reaffirmed</b>
Short term bank facilities	56.00	<b>CARE A3+</b> [A Three Plus]	<b>Reaffirmed</b>
Total facilities	<b>99.97</b> <b>(Rs. Ninety Nine Crore and Ninety Seven Lakhs only)</b>		

*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 and stable profitability margins over period FY17-FY19. The rating also derives strength from steady improvement in scale of operation and nearing completion stage of existing expansion project which substantially mitigates project risk. The ratings however continue to be tempered by the leveraged capital structure and working capital intensive nature of operations, moderate customer concentration risk, exposure to volatility in raw material prices and foreign exchange fluctuation risk imparting volatility to the profitability.

### Rating Sensitivity

#### 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 on sustained basis

### 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. The plant is equipped with machineries for 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. Exports continued to contribute around 65% of the total sales over the years. During 9M-FY20, KPPL reported total sales of Rs. 147 crore and PBILDT of Rs. 25 crore. The major export markets of KPPL are USA, Australia, UK, Turkey and Hong Kong. Profitability margins continued to remain stable with PBILDT margin at 17.05% for FY19 vis-à-vis 17.30% during FY18. However, margins are expected to moderate due higher initial cost of operation and interest cost for new capex in next 2 years.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Project risk mitigated partially**

During FY16-19, KPPL had undertaken a capex of Rs. 53 crore with a total debt of Rs.33. The expansion was mainly for increasing its existing capacity and start new product line. The capex was in advanced stage during FY19 and is currently nearing completion stage with few machinery pending to be installed. KPPL has already commenced production partly from the new capex, however full-fledged production is expected to commence in April, 2020. Further, KPPL also incurred expenditure on line balancing to improve the productivity of the existing assembly lines.

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.

**Moderate customer 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 albeit witnessing an increasing trend, with top 5 customers contributing to 43% of the total sales during FY19. KPPL's customer profile has also remained consistent over last 4 years, thus customer concentration risk is partially mitigated. KPPL has long association with their customers and regularly receive repeat orders.

**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 2.12x as on March 31, 2019 vis-à-vis 2.56x as on March 31, 2018. Total debt/GCA improved to 4.80x as on March 31, 2019 vis-à-vis 6.03x as on March 31, 2018. The interest coverage ratio improved marginally to 3.87x in FY19 from 3.40x in FY18 owing to stable profitability margins over last 3 years (FY17-FY19).

**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 improved to 64 days in FY19 from 71 days in FY17. The company stocks cotton, polyester, polypropylene, etc. Average collection period remained flat at 88 days. (PY: 86 days). KPPL receives a reasonable credit period of 50-60 days from its suppliers. KPPL's operations are working capital intensive in nature, resulting in significant dependence on the working capital borrowings. As a result average maximum utilization for fund based working capital limits was high at 92% during 12-month period ending in December, 2019.

**Raw material volatility**

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.

**Foreign exchange fluctuation risk**

During FY19, KPPL carried out gross sales of Rs. 131 crore (68% of its sales) from the overseas market (mainly USA, UK and Australia), while its imports remained at Rs. 7.10 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.

**Liquidity: Stretched**

KPPL has unencumbered cash and bank balance of Rs. 0.69 crore and current ratio at 1.15x as on March 31, 2019. Average maximum utilization of working capital limits stood at 92% for 12-month period ending in December, 2019. As on November 30, 2020, the company has debtors of Rs. 30.52 crore aging in less than 60 days. However, the company has repayments of Rs. 10.49 crore and Rs. 9.33 crore in FY20 and FY21 respectively against expected cash accruals of Rs. 23.87 crore and Rs. 26.27 crore respectively. Going forward, KPPL has plans for capacity expansion, partly to be funded out of internal accruals.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating of Short Term instruments](#)

[Rating methodology – Manufacturing companies](#)

[Financials Ratio-Non Financial Sector](#)

[CARE's policy on Default recognition](#)

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

### 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)	FY18 (A)	FY19 (A)
Total operating income	166.26	203.67
PBILDT	28.77	34.73
PAT	7.90	11.32
Overall gearing (times)	2.56	2.12
Interest coverage (times)	3.40	3.87

A: Audited

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	33.97	CARE BBB; Stable
Fund-based - ST-EPC/PSC	-	-	-	20.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	33.97	CARE BBB; Stable	-	1)CARE BBB; Stable (15-Mar-19) 2)CARE BBB; Stable (03-May-18)	1)CARE BBB; Stable (05-Feb-18)	1)CARE BBB-; Stable (01-Mar-17) 2)CARE BBB- (05-May-16)
2.	Fund-based - ST-EPC/PSC	ST	20.00	CARE A3+	-	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)
3.	Fund-based - ST-FBN / FBP	ST	20.00	CARE A3+	-	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB; Stable (15-Mar-19) 2)CARE BBB; Stable (03-May-18)	1)CARE BBB; Stable (05-Feb-18)	1)CARE BBB-; Stable (01-Mar-17) 2)CARE BBB- (05-May-16)
5.	Fund-based - ST-Working Capital Limits	ST	1.00	CARE A3+	-	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)
6.	Non-fund-based - ST-Letter of credit	ST	14.00	CARE A3+	-	1)CARE A3+ (15-Mar-19)	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
						2)CARE A3+ (03-May-18)		(05-May-16)
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (15-Mar-19) 2)CARE A3+ (03-May-18)	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Pulkit Agrawal  
Contact no. - 022-67543505  
Email ID- [pulkit.agrawal@careratings.com](mailto:pulkit.agrawal@careratings.com)

### Relationship Contact

Mr. Ankur Sachdeva  
Contact no. – +91-22-6754 3495  
Email ID: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**