

## Khosla Profil Private Ltd

May 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating *	Rating action
Long Term Bank Facilities	50.04 (Enhanced from 27.39)	CARE BBB; Stable (Triple B ; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	56.00 (Enhanced from 45.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total facilities	106.04 (Rs. One Hundred and Six Crore Four 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) takes in to account the improvement in scale of operation and profitability margins in FY17(A) and FY18(UA), reduction in project risk owing to substantial completion of project. The ratings also continue to derive strength from the experience of the promoters in the technical textile business, diversified product profile and moderate profitability margins.

The ratings however continue to be constrained by leveraged capital structure and working capital intensive nature of operations; albeit improvement as at the end of March 31, 2017. The ratings are also constrained by exposure to volatility in raw material prices, foreign exchange fluctuation risk imparting volatility to the profitability.

Ability of the company to increase its scale of operations, optimum utilisation of the expanded capacities, improve its profitability margins and capital structure remains the key rating sensitivities.

### 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. The company has a presence right from weaving (filter fabrics), dyeing/processing of the fabrics to made ups (filtration bags).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.

##### ***Improved performance in FY17(A) and FY18(UA)***

Operating income rose by 23% yoy in FY17 and 3% in H1FY18 coupled with improvement in EBIDTA margins. The total operating income during FY17 rose by 23% on a yoy basis primarily led by higher export sales. Export sales which accounted for 65% of gross sales in FY17 showed a growth of 40% on a y-o-y basis. While the domestic sales which accounted for the balance showed a growth of 2% on a y-o-y basis in FY17. Further, in FY18 (UA)the total operating

income showed a y-o-y growth of 17%. The PBILDT margins have remained on the increasing trend over last four years. The improvement in margins was mainly attributable to increase in scale and leading to better efficiencies.

The major export markets of KPPL are USA, Australia, UK, Turkey and Hong Kong. Exports contributed to 65% of revenues in FY17 (58% in FY16) and domestic business contributing balance. Going forward, the ability of KPPL to increase scale of operations and maintain profitability margins amidst increased competition shall remain the key rating sensitivity.

#### **Substantial completion of project under implementation to aid in volume growth for the company**

KPPL had planned a total capex of about Rs.53 crore during FY16-FY18 period with a total debt of Rs.33 crore (debt of Rs.15 crore in first tranche and Rs.18 crore in second tranche). The expansion was mainly for increasing its existing capacity and building construction. During FY16 the company had incurred about Rs.23 crore and further it has incurred about Rs.14 crore in FY17. Also in the current year, the company have incurred additional Rs. 13 crore up to January 23, 2018 and a balance capex of about Rs.3 crore investment is pending and is expected to be incurred by end of Q4FY18. The company has already commenced production on the expansion done over last two years, however the commencement of operation on the recently installed machines/new product line is expected to commence by end of FY18.

The expansion undertaken over last 2-3 years is expected to improve its scale of operations further. Ability of the company to optimally utilise the expanded capacities and maintain operating profits also to manage working capital cycle effectively would remain a key monitor able.

#### **Improvement in capital structure and debt coverage indicators as at March 31, 2017**

KPPL's financial risk profile continued to be marked by a leveraged capital structure and moderate debt coverage indicators; albeit some improvement witnessed in FY17. Overall gearing improved from 2.58x as on March 31, 2016 to 2.24x as on March 31, 2017. Total debt/GCA improved from 7.44x as on March 31, 2016 to 5.42x as on March 31, 2017 led by repayment of existing loan and improved profitability. The interest coverage ratio also improved from 2.75x in FY16 to 3.18x in FY17, further to 3.88x in H1FY18 (PY: 3.31x).

#### **Key Rating Weaknesses**

##### ***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 is 77 days as the company stocks cotton, polyester, polypropylene, etc. Further, average collection period continues to be high at 80 days. KPPL receives a reasonable credit period of 49 days. This reflects working capital intensive nature of operations resulting in dependence on the working capital borrowings. As a result average maximum utilization for fund based working capital limits was 80% during last 12 months ended December 2017.

##### ***Raw material volatility***

Major raw materials consumed 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 FY18(UA), KPPL earned approximately Rs.102.50 crore (61% of its sales) from the overseas market (mainly USA, UK and Australia), while its imports remained at about Rs.15 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.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's default recognition policy](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

**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). It has an aggregate installed capacity of 97 looms spread over two units at Wada, Thane; Maharashtra.

The company's installed capacity as on March 31, 2017 was at 90 lakhs metre as against an installed capacity of 80 lakhs as on March 31, 2016.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	116.77	144.13
PBILDT	17.65	24.71
PAT	3.55	6.28
Overall gearing (times)	2.58	2.24
Interest coverage (times)	2.75	3.18

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

**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.

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### 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	-	-	Mar 2024	40.04	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	40.04	CARE BBB; Stable	-	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+ (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+ (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 (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+ (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+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)	-
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A3+	-	1)CARE A3+ (05-Feb-18)	1)CARE A3 (01-Mar-17) 2)CARE A3 (05-May-16)	-

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CIN - L67190MH1993PLC071691