Kusumgar Corporates Private Limited

December 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities-Term Loan	16.52 (21.16)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Long Term Bank Facilities-Fund based	12.00 (12.00)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Short Term Bank Facilities-Non Fund based	11.50 (11.84)	**CARE A2 (A Two)**	**Reaffirmed**
Total	**40.02 (Rupees Forty Crore and Two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kusumgar Corporates Pvt. Ltd (Kusumgar) continues to derive strength from the experience of the promoter in the Technical Textile business, integrated presence across the value chain with diversified product mix, healthy capital structure and comfortable debt coverage ratios.

These rating strengths are, however, tempered by modest scale of operations, exposure to fluctuation in the prices of raw materials and forex movements, and competitive nature of the industry.

The ability of the company to improve its scale of operations while maintaining profitability margins, and maintain its working capital requirements efficiently remain the key rating sensitivities. Any significant debt funded capital expenditure other than the ongoing capex is the key rating monitorable.

The positive outlook on the long term bank facilities of Kusumgar reflects CARE's expectation that the company will continue to improve its scale of operations with new capacity addition which is expected to operationalize in FY19 while maintaining its operating margins and capital structure at present level. The outlook may be revised to stable in case the operating performance of the company post capacity addition remains at subdued level.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced Promoters

Kusumgar Corporate Private Limited (Kusumgar) was originally incorporated in June 1990 in the name of Kusumgar Finstock Pvt Ltd and later changed its name to Kusumgar Corporates Pvt Ltd in November 2008. It is established by Mr Yogesh Kusumgar (Chairman) who has more than 40 years of experience in Technical Textile industry.

Integrated presence with diversified product mix

Over the years Kusumgar has emerged as a small sized integrated Technical Textiles player with presence across the value chain right from weaving to processing/dyeing/finishing to printing to coating and lamination. Kusumgar is engaged in

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

manufacturing of specialty textiles and industrial fabrics for various segments such as armed forces fabrics such as parachute fabrics, ballistic fabrics, protective fabrics, etc.; industrials fabrics such as filter fabrics, coated fabrics, etc.; geo-synthetic fabrics; sports and recreational fabrics, etc.

Improved operational performance

Kusumgar's net sales grew by 19.50% y-o-y to Rs.126.48 crore in FY17 on account of increase in sales from defense and domestic segment. PAT increased from Rs.7.68 crore in FY16 to Rs.10.43 crore in FY17 while the PAT margin improved from 7.2% in FY16 to 8.25% in FY17. The margins were supported by improved product mix as more orders were executed from defense segment which were high margin in nature. During H1FY18 the company has recorded total income of Rs. 62.99 crore and PAT of Rs. 6.52 crore.

Comfortable debt coverage indicators and overall gearing

Kusumgar had comfortable debt coverage indicators and overall gearing during review period due to low debt level along with satisfactory profitability and cash accruals. The overall gearing has improved from 0.59x in FY15 to 0.37x in FY17.

Key Rating Weaknesses

Modest scale of operations

Kusumgar's net sales grew at a CAGR of 22.5% in the last three years i.e. [FY15-FY17] to Rs.126.48 crore on account of multifold increase in sales. However, its scale of operation continues to be small. Furthermore government orders are likely to be lumpy in nature. Due to its modest scale, Kusumgar remains exposed to and can be adversely impacted if some big order does not materialize or does not get executed.

Susceptibility to fluctuation in raw material prices

The major raw materials used by the company are specialty nylon/polyester/rayon yarns; all being derivative of crude oil are continuously affected by movement in crude oil prices. Raw material price fluctuation risk is mitigated to an extent as the company does back to back ordering of raw materials and follows order based production policy which minimizes the risk.

Tender based nature of defense business

The tender based nature of the defense business (contributing around 33% of total revenue in FY17) exposes the company to revenue related risks. Ability of the company to get the repeated orders from the same is a key rating factor.

Forex risk

Kusumgar is engaged in exports of Technical Textile, which contributed around 13% of total sales in FY17 (vis-à-vis 22% in FY16). Furthermore it imports specialty raw materials, stores and spares which stood at 47% of total purchases in FY17. Hence Kusumgar in a way is more or less naturally hedged and tries to manage timing differences between imports and exports payments which reduces foreign currency fluctuation risk. Ability of the company to effectively manage its foreign exchange exposure remains critical to its credit profile given small size of operations.

Ongoing project

The Company is currently undertaking a capacity expansion project. The proposed expansion will help company double its production capacity. The total project cost is around Rs. 34.50 crore and is to be funded by term loan of Rs. 19.50 crore. Execution risk remains moderate given that this is an expansion capex and the company has experience in commissioning similar kind of units.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
Kusumgar Corporate Private Limited (Kusumgar) was originally incorporated in June 1990 in the name of Kusumgar Finstock Pvt. Ltd and later changed its name to Kusumgar Corporates Pvt. Ltd in November 2008. It is established by Mr. Yogesh Kusumgar (Chairman) who has more than 40 years of experience in Technical Textile industry. Kusumgar is engaged in manufacturing of specialty textiles and industrial fabrics for various segments such as armed forces fabrics, sports and recreational fabrics, geo-synthetic fabrics etc. Kusumgar uses a wide variety of specialty materials including polyamide and polyester filament yarns, specialty nylon & rayon yarns, poly-aramid yarns, etc. Over the years Kusumgar has emerged as a small sized integrated Technical Textile player with presence across the value chain right from weaving to processing/dyeing/finishing to printing to coating and lamination. Existing manufacturing facilities are located at Surat (preparatory, weaving) Vapi (printing, processing and coating).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	106.8	126.48
PBILDT	20.58	23.93
PAT	7.68	10.43
Overall gearing (times)	0.29	0.37
Interest coverage (times)	8.5	12.43

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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. Investors/market intermediaries/regulators or others are welcome to write to 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	-	-	FY2023	16.52	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE BBB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	11.50	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	16.52	CARE BBB+; Positive	-	1)CARE BBB+ (31-Aug-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB+; Positive	-	1)CARE BBB+ (31-Aug-16)	-	-
3.	Non-fund-based - ST-BG/LC	ST	11.50	CARE A2	-	1)CARE A2 (31-Aug-16)	-	-

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