Kusumgar Corporates Private Limited
March 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Term Loan	18.05 (19.75)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
LT/ST Bank Facilities –Fund Based and Non Fund Based	23.50	CARE BBB+; Stable/CARE A2 [Triple B Plus; Outlook: Stable/ A Two]	Reaffirmed
	41.55 (Rs. Forty One crore and Fifty Five Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Kusumgar Corporates Private Limited (KCPL) 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 subdue performance in FY19 & H1FY20, modest scale of operations, exposure to fluctuation in the prices of raw materials and forex movements, and competitive nature of the industry.

Rating Sensitivity

Positive Factors:

- Sustainable improvement in scale of operations with CAGR above 12% for next 4 years.
- Reduction in operating cycle below 80 days with improvement in collection period and inventory period.

Negative Factors:

- Deterioration in capital structure with overall gearing above 1.50x
- Reduction in PBILDT margin below 11% on sustainable basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

Kusumgar Corporate Private Limited (KCPL) 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. He has been instrumental in defining the overall vision and establishing Kusumgar as one of the small sized established player in Technical Textile segment.

Integrated presence across the value chain 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 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. The company is a leading player in India in certain products like parachute fabrics, etc. Kusumgar uses a wide variety of specialty materials including polyester filament yarns, specialty nylon, poly-aramid yarns, etc. It uses varied types of looms such as conventional Shuttle looms, Dornier Rigid Rapier looms, Sulzer Flexible Rapier Looms, Sulzer Projectile Weaving Machines, etc. It weaves fabrics of finer denier from 30D to coarser ones 1000D yarns. KCPL's business can be categorized into three segments i.e. Defense, Exports and others.

Healthy capital structure and debt protection metrics

Overall gearing (including acceptances on LC) remained healthy and improved marginally from 0.40x as on March 31, 2018 to 0.32x as on March 31, 2019 on account on debt repayment and lower acceptances. However, TD/GCA deteriorated marginally from 1.39x in FY18 to 1.54x in FY19 due to lower profitability. Consequently, Interest Coverage also declined from 10.98x in FY18 to 7.12x in FY19.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses

Subdue performance in FY19, moderation in profitability margins

KCPL's operating income dipped by 2% to Rs.131 crore in FY19 as against growth of 6% in FY18. KCPL's defence segment registered increase of 21% in FY19 compared to 13% in FY18. However, in H2FY19, the government deferred defence orders due to general election. KCPL has forayed into outdoor luggage bags segment in order to capitalise idle capacity due to low orders in defence segment.

PBILDT margins of KCPL deteriorated sharply by 445 basis points to 15.75% in FY19 20.2% in FY18 due to high input costs on imports and forex fluctuations. PAT margin continues to show downtrend and deteriorated by 248 basis points to 5.01% primarily on account of increased interest cost due to term loan of Rs.15 crore availed and increased depreciation on account of capacity expansion in FY18.

Modest scale of operations

Net sales of KCPL increased at a CAGR of 7.6% over the past 4 years (FY16-FY19). However the scale of operations continue to remain moderate. Due to its small scale of operations, Revenues projected over the next couple of years are sensitive to order execution risk if some big sized orders are not materialized. KCPL currently has order book of Rs. 122.67 crore as on February, 2020, of which, Rs. 30 crore order book will be executed till March 2020.

Tender base nature of business

In FY19, KCPL's 57% of income derived from defence segment, in which contract are awarded based on tender. As the nature of these contracts are primarily fixed-price, Going forward, KCPL's ability to get repeated orders from this segment as well as increasing revenue-share from other segments remains a key rating monitor able.

Susceptibility to fluctuation in raw materials prices

The major raw materials used by the company are specialty nylon/polyester yarns. The company imports 40%-45% of its raw material requirement wherein it gets better credit term of up to 90 days and balance through domestic players like Reliance Industries Limited. Due to fluctuations in raw material prices in FY19, KCPL's gross margin stood at 46% as against 50% in FY18. Kusumgar imports specialty raw material (Yarn, chemicals and fabric) which further processes it in its manufacturing facilitates and is also engaged in exports of technical textiles. Over the years, KCPL has reduced its imported raw material. However, the company continues to depend on imports as it remains vital for key products offerings.

Susceptible to fluctuations in foreign exchange rates

In FY19 total value of imports stood at Rs. 38.85 crore in FY19 as against Rs. 43.19 crore in FY18. Total exports stood at Rs. 19.62 crore (15% of total sales) FY19 vis-à-vis Rs. 15.44 crore (11% of total sales) in FY18. Hence Kusumgar to an extent is naturally hedged and tries to manage timing differences between imports and exports payments which reduces foreign currency fluctuation risk by hedging the differential portion. Ability of the company to effectively manage its foreign exchange exposure remains critical to its credit profile given small size of operations.

Working capital intensive nature of business

KCPL's operations remains working capital intensive with high working capital utilization and elongated operating cycle. Operating cycle deteriorated from 81 days in FY18 to 120 days in FY19 primarily an account of lower receivables and inventory turnover. In FY19, KCPL was expecting significant orders in defence segment and had procured raw materials for the same. However, due to general elections in year 2019, the government deferred the new orders and shipments of previous orders. Thus, KCPL is left with significant inventory in terms of raw materials as well as finished goods. Collections period also increased owing to same. KCPL's collection period deteriorated from 66 days in FY18 to 85 days in FY19 while inventory period deteriorated from 51 days in FY18 to 64 days in FY19. However, as on March 31, 2019, KCPL has only Rs. 0.37 crore receivables exceeding 6 months from due date of total receivables of Rs. 29.32 crore. KCPL's average working capital utilization remained at 55% in FY19 and at 41% for 10M-FY20.

Customer concentration and Supplier risk

KCPL's top 10 customers accounted for nearly 61% for total sales in FY19 as against 59% for total sales in FY18, thus marginally increasing the customer concentration risk. Top 10 suppliers accounted for nearly 69% of total purchases in FY19 as against 67% in FY18. Over the years, KCPL has been able to establish relationships with its vendors and customers and thus has been able to obtain consistent orders, however its concentration and order execution risk remains critical to its credit profile. In FY20, KCPL has added number of high value clients.

Liquidity: Adequate

KCPL's liquidity profile is marked by modest cash and bank balance of Rs. 0.13 crore and current ratio at 2.25x as on March 31, 2019. Further, KCPL's average maximum working capital utilization remains moderate at 48% for 12-month period ending in February, 2020, thus providing adequate headroom for liquidity. KCPL has term loan repayment of Rs. 4.58 crore and Rs. 4.70 crore against expected cash accruals of Rs. 14.20 crore and Rs. 18.68 crore for FY20 and FY21 respectively.

Analytical approach: Standalone

Applicable Criteria
Rating of Short Term instruments
Criteria on assigning 'Outlook' and 'Credit watch' to Credit Ratings
Rating methodology – Manufacturing companies
Rating of Short Term instruments
Financials Ratio-Non Financial Sector

About the Company
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Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	134.56	131.74
PBILDT	27.24	20.75
PAT	10.06	6.60
Overall gearing (times)	0.40	0.32
Interest coverage (times)	10.98	7.12

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 2025	18.05	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	12.00	CARE BBB+; Stable / CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	11.50	CARE BBB+; Stable / 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 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	18.05	CARE BBB+; Stable	1)CARE BBB+; Stable (13-Sep-19)	1)CARE BBB+; Positive (30-Oct-18)	1)CARE BBB+; Positive (22-Dec-17)	1)CARE BBB+ (31-Aug-16)

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.	Fund-based/Non-fund-based-LT/ST	LT/ST	12.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (13-Sep-19)	1)CARE BBB+; Positive / CARE A2 (30-Oct-18)	1)CARE BBB+; Positive (22-Dec-17)	1)CARE BBB+ (31-Aug-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	11.50	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (13-Sep-19)	1)CARE BBB+; Positive / CARE A2 (30-Oct-18)	1)CARE A2 (22-Dec-17)	1)CARE A2 (31-Aug-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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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