Kusumgar Corporates Private Limited

October 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities-Term Loan	19.75 (enhanced from 16.52)	**CARE BBB+; Positive (Triple B Plus; Outlook: Positive)**	**Reaffirmed**
Long Term/Short term Bank Facilities-Fund based/Non fund based	23.50	**CARE BBB+ Positive/CARE A2; (Triple B Plus; A Two Outlook: Positive)**	**Reaffirmed**
Total	**43.25 (Rupees Forty three Crore and Twenty five 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 with optimal utilization of the newly added capacity while maintaining the profitability margins remain the key rating sensitivities.

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 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 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 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

Revenue from operations increased from Rs.126 crore in FY17 to Rs.134 crore in FY18 registering a growth of 6.3% vis-à-vis y-o-y revenue growth of 18.4% in the previous year. PBILDT margins of KCPL improved from 18.9% in FY17 to 20.2% in FY18 consistent with past trends owing to consolidation in manufacturing facilities and cost reduction initiatives resulting in operating efficiencies. PAT margins moderated from 8.25% in FY17 to 7.48% in FY18 primarily on account of increased interest cost due to term loan availed for capacity expansion.

Comfortable debt coverage indicators and overall gearing

Kusumgar had comfortable debt coverage indicators and capital structure due to low reliance on debt along with satisfactory profitability and cash accruals. The overall gearing deteriorated marginally from 0.37x as on March 31st, 2017 to 0.40x as on March 31st, 2018. The debt coverage indicators continue to remain comfortable with PBILDT interest coverage at 10.98x and TD/GCA of 1.39x during FY18.

Key Rating Weaknesses

Modest scale of operations

Net sales of KCPL increased at a CAGR of 12.24% over the past 3 years (FY16-FY18) however the scale of operations continue to remain moderate. 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 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 35% of total revenue in FY18) 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 exchange fluctuation risk

In FY18, total value of imports increased substantially from Rs.26.53 crore (48% of total purchases) to Rs.43.2 crore (79% of total purchases) in FY18. Total exports stood at 11.5% of total sales in FY18 vis-à-vis 13.8% in FY17. 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.

Project risk

The company has completed its capacity expansion project. The project has resulted in expansion in production capacity from 72 lakh linear meters to 115 lakh linear meters. However the ability of the company to optimally utilize the expanded capacity is the key rating sensitivity.

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

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Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	126.48	134.56
PBILDT	23.93	27.24
PAT	10.43	10.06
Overall gearing (times)	0.37	0.40
Interest coverage (times)	12.43	10.98

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	-	-	-	19.75	CARE BBB+; Positive
Fund-based/Non Fund based-LT/ST-CC/LC/BG/EPC/EBD	-	-	-	23.50	CARE BBB+/CARE A2; Positive

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	19.75	CARE BBB+; Positive	-	1)CARE BBB+; Positive (22-Dec-17)	1)CARE BBB+ (31-Aug-16)	-
2.	Fund-based/Non-Fund Based – LT/ST-CC/LC/BG/EPC/EBD	LT/ST	23.50	CARE BBB+/CARE A2; Positive	-	1)CARE BBB+/CARE A2; Positive (22-Dec-17)	1)CARE BBB+/CARE A2 (31-Aug-16)	-

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