

Kusumgar Corporates Private Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	18.05	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term / Short-term bank facilities	23.50	CARE A-; Positive / CARE A2+	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in ratings assigned to bank facilities of Kusumgar Corporates Private Limited (KCPL) factors in the vast experience of promoters in the technical textile industry and improvement in the performance for FY23 and 9MFY24. Ratings continue to derive strength from healthy financial risk profile though slight moderation expected in medium term on account of capital expenditure (capex), integrated presence across value chain, diversified product mix, and comfortable debt coverage indicators. However, ratings are constrained by working capital intensive nature of operations, project risk for ongoing capex, and susceptibility to volatile raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations above ₹500 crore while maintaining profit before interest, lease rentals, depreciation and tax (PBILDT) margins at over 20% on a sustainable basis.
- Improving capital structure with overall gearing below 0.25x on a sustained basis.

Negative factors

- Overrunning of time or cost in the ongoing capex.
- Reducing PBILDT margins below 15% on a sustained basis.
- Deteriorating capital structure with overall gearing above 0.75x.

Analytical approach: Standalone

Outlook: Positive

CARE Ratings Limited (CARE Ratings) has revised the outlook from stable to positive as the agency expects the company to show significant improvement in the performance in the near term on account of capacity expansion by 3x times and forward integration for manufacturing of ready to use technical textile products.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters in technical textile industry

KCPL was originally incorporated in June 1990 in the name of Kusumgar Finstock Pvt. Ltd. and its name was later changed to Kusumgar Corporates Pvt. Ltd. in November 2008. It was established by Yogesh Kusumgar (Chairman) who has more than 40 years of experience in the technical textile industry and currently managed by his son, Siddharth Kusumgar (Managing Director). He has been instrumental in defining the overall vision and establishing KCPL as one of the prominent and established players in the technical textile segment. Promoters are ably supported by professional management to run the daily operations.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Integrated presence across the value chain with diversified product mix

Over the years, KCPL has emerged as a mid-sized integrated technical textiles player with presence across the value chain from weaving to processing/dyeing/finishing to printing, coating and lamination. KCPL is engaged in the manufacturing of specialty and industrial fabrics for various segments such as armed forces, sports wear and parachutes, among others. The company is one of the leading players in the world in certain products like parachute fabrics and packing tape fabrics, among others. KCPL's business can be categorised into four segments, Defense, Industrial, Outdoor and Specialty. Over the years, KCPL has introduced different product lines in order to reduce its dependence on defense orders which contributed more than 50% to the total revenue earlier. Recently, the company has engaged into forward integration wherein KCPL will be manufacturing ready-to-use technical textile products such as parachutes.

Improvement in the scale of operations in FY23 and 9M-FY24; likely to improve further in medium term

KCPL's total operating income for FY23 grew significantly by 40% Y-o-Y basis to ₹312.22 crore compared to ₹222.94 crore in FY22. The improvement was backed by orders from defense segment, diversification in customised segment such as industrial and specialty fabrics supported by demand shift from China. The company caters to domestic (60% of TOI) as well as export (40% of TOI) customers. In the current financial year, the company benefitted from the recently set-up plant for manufacturing of ready-to-use technical textile products reflected by an increase in the revenue contribution from sale of these products to above 15% in 9MFY24. Hence, KCPL clocked a turnover of ₹275 crore for the said period. Going forward, the company is envisaging turnover above ₹900 crore for FY25 on account of capacity expansion by 3x. Hence, timely commencement of operations of the additional capacity reflecting in the improvement in turnover will be key monitorable.

Continuation of healthy operating margins in FY23; Improvement in 9MFY24 which is likely to sustain

The company's operating margin continues to remain stable at 19.30% as it operates in technical textile segment where it focuses on defense and industrial needs which fetch high margins (PY: 18.79%). In 9MFY24, along with the sale of existing products, there was an increase in sale from the forward-integrated ready-to-use products (parachutes and camouflage nets) which has delivered high margins. Hence, KCPL's operating margin has improved to 25.68% for 9MFY24.

Going forward, the ongoing capacity expansion along with forward integration is likely to sustain KCPL's operating margins above 25% for medium term due to expected improvement in scale of operations, economies of scale, and moderation in raw material prices.

Healthy capital structure and debt coverage indicators

KCPL's capital structure continues to remain healthy with overall gearing at 0.29x as on March 31, 2023 (PY: 0.26x). The stable overall gearing is due to accretion of profits and lower dependence on working capital limits despite increase in term loans. KCPL has availed term loans worth ₹45 crore in current fiscal year to fund its capacity expansion. In near term, the company will be undertaking similar capex for which it is expected to avail ₹20 crore of additional term loans. Considering the same, KCPL's overall gearing is expected to moderate marginally in FY24, however it is expected to remain comfortable on account of healthy profitability and accretion of profits to networth of the company. The debt coverage indicators remain comfortable in FY23 with Total Debt to GCA at 1.01x (PY: 0.99x), PBILDT Interest Coverage at 14.78x (PY: 12.62x) and Total debt to Net Cash Flow from operations at 3.56x (PY: 2.88x). Going forward, despite the increase in the debt levels on account of capex, the debt protection metrics are projected to remain comfortable.

Key weaknesses**Working capital intensive nature of business**

KCPL's operations remain working capital intensive with elongated operating cycle. However, the working capital utilisation remains low as the company majorly utilises its internal accruals for daily operations. The operating cycle continues to remain stable yet elevated at 122 days in FY23 (PY: 121 days) primarily due to stretched collection and inventory period. As KCPL has reputed customer base, the company has not witnessed any major headwinds for collection of debtors. Average working capital utilisation stood at around 51% for 12-month period ending in February 2024. The increase in reliance on working capital borrowings is on account of utilisation of the internal accruals to fund the ongoing capex. Moreover, CARE Ratings expects the utilisation to remain comfortable considering the headroom available with the company in terms of unutilised working capital limits.

Project execution risk

KCPL is undertaking capacity expansion for its fabric manufacturing unit in two phases. The total cost for phase one capacity expansion by 2.5 crore meter/annum was ₹80 crore which was funded through a mix of debt of ₹45 crore and balance through internal accruals of the company. The cost was mainly incurred towards purchase of high-end technology machinery. The land

and building where the capex is set up has been leased. Earlier, the phase one capacity expansion was expected to be completed by February 2023; however, on account of the delay in construction of building, the capex got delayed. No additional costs were incurred by KCPL. As of now, this expansion is almost complete, and the operations are expected to commence from March 2024. The phase two capacity expansion is similar to that of phase one wherein KCPL will be expanding its capacity further by 1.5 crore meters/annum by purchasing additional machinery to the tune of ₹40 crore to ₹50 crore for which it is expected to avail term loans of around ₹20 crore. This project is in the nascent stage and is expected to be completed in H1FY25. Timely completion of capex resulting into improvement in the scale of operations will be a key monitorable.

Susceptibility to fluctuation in raw materials 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. The company imports 40%-50% 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, where it is required to make upfront payment. KCPL imports specialty raw material (yarn, chemicals and fabric) which it further processes in its manufacturing facilities and is also engaged in the exports of technical textiles. Over the years, KCPL has reduced its dependence imported raw material. However, the company continues to import certain raw materials which are vital for key products offerings.

Susceptible to fluctuations in foreign exchange rates

In FY23, the total value of imports stood at ₹68.08 crore as against ₹47.16 crore in FY22. Total exports stood at ₹114.49 crore (37% of total sales) in FY23 compared to ₹76.21 crore (34.5% of total sales) in FY22. Hence, KCPL to an extent is naturally hedged and the company also tries to reduce the foreign currency risk on its net exposure by availing forward contracts on the USD. KCPL's unhedged exposure has increased marginally due to an increase in both export sales as well as imports of raw material.

Liquidity: Strong

KCPL's liquidity profile is considered strong on account of unencumbered fixed deposits (FDs) worth ₹125 crore and free cash and bank balance of ₹13 crore as on March 15, 2024. The company expects healthy gross cash accruals (GCA) above ₹90 crore against minimal scheduled debt repayments of less than ₹15 crore for FY24 and FY25. KCPL's maximum utilisation of its ₹85.00 crore of fund-based working capital limits remains around 50% for 12-month period ending in February 2024, thus providing sufficient headroom for meeting incremental working capital needs from the existing line of credit. The current ratio stood at 2.76x as of March 31, 2023. Considering above, KCPL's liquidity profile is expected to remain strong in medium term.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Manmade Yarn-Methodology](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Textiles	Textiles & Apparels	Other textile products

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 was established by Yogesh Kusumgar (Chairman), who has more than 40 years of experience in the technical textile industry, and it is currently managed by his son, Siddharth Kusumgar (Managing Director). KCPL is engaged in the manufacturing of specialty textiles and industrial fabrics for various segments, such as armed forces fabrics, parachute fabrics, ballistic fabrics and protective fabrics, among others.; industrials fabrics, such as fabrics for mechanised rubber goods and tapes, among others and outdoor fabrics for jackets and shorts, among others. The company is a leading player

in the world in certain products like parachute fabrics and tape fabrics, among others. KCPL uses a wide variety of specialty materials, including polyamide and polyester filament yarns, specialty nylon yarns and para-aramid yarns, among others. It uses varied types of looms, such as Dornier Rigid Rapier looms, Sulzer Flexible Rapier Looms, Sulzer Projectile Weaving Machines and Waterjet looms, among others. It weaves fabrics of finer denier from 15D to coarser ones 1000D yarns. KCPL's business can be categorised into four segments, Defense, Industrial, Outdoor, and Specialty. Over the years, KCPL 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. KCPL's existing manufacturing facilities are located at Surat (weaving) and Vapi (weaving and processing).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	222.94	312.22	275.00
PBILDT	41.90	60.25	71.20
PAT	22.46	35.85	NA
Overall gearing (times)	0.26	0.29	NA
Interest coverage (times)	12.62	14.13	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL, vide its press release dated September 20, 2023, has retained the credit rating of bank facilities of KCPL under non-cooperation category.

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	18.05	CARE A-; Positive
Fund-based/Non-fund-based-LT/ST		-	-	-	23.50	CARE A-; Positive / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	18.05	CARE A- ; Positive	-	1)CARE A- ; Stable (24-Mar-23) 2)CARE A- ; Stable (05-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST	23.50	CARE A- ; Positive / CARE A2+	-	1)CARE A- ; Stable / CARE A2+ (24-Mar-23) 2)CARE A- ; Stable / CARE A2+ (05-Apr-22)	1)CARE BBB+; Stable / CARE A2 (05-Apr-21)	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Sudarshan Shreenivas Director CARE Ratings Limited Phone: 912267543566 E-mail: sudarshan.shreenivas@careedge.in</p> <p>Arunava Paul Associate Director CARE Ratings Limited Phone: 912267543667 E-mail: arunava.paul@careedge.in</p> <p>Rakshata Khatawkar Analyst CARE Ratings Limited E-mail: Rakshata.K@careedge.in</p>
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**