

May 07, 2020

Kapotex Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit [#]	(1.50)	(1.50)	[ICRA]B+(Stable); reaffirmed
Term Loan	2.28	2.28	[ICRA]B+(Stable); reaffirmed
Export packing Credit/Packing credit in Foreign Currency/ Export Bill Discounting	5.00	5.00	[ICRA]A4; reaffirmed
Letter of credit	5.00	5.00	[ICRA]A4; reaffirmed
Bank Guarantee	0.50	0.50	[ICRA]A4; reaffirmed
Credit Exposure Limit	0.10	0.10	[ICRA]A4; reaffirmed
Unallocated amount	1.40	1.40	[ICRA]B+ (Stable)/ [ICRA]A4; reaffirmed
Total	14.28	14.28	

*Instrument details are provided in Annexure-1

[#]Sub limit of Export Packing Credit/Packing credit in Foreign Currency/ Export Bill Discounting facility of Rs. 5.00 crore

Rationale

The re-affirmation of ratings continues to take into account KIPL's moderate scale of operations and its stretched liquidity profile due to high inventory level and receivables in FY2020 following the country-wide lockdown announced by Government of India (GoI). ICRA further notes that the company derives over 95% of its revenues from the overseas market, and the ongoing uncertainty in the global market can adversely impact its operations in the near term. ICRA also notes the company's high reliance on a single customer, which exposes its revenues to customer concentration risks. The ratings also consider the susceptibility of KIPL's margins to foreign currency and raw material price fluctuations and the competitive pressure from international players.

The ratings, however, continue to favourably incorporate the established experience of the promoters in the wool yarn business and the company's improved profit margin in FY2019 and 10MFY2020. Consequently, the capitalization and coverage indicators have also improved.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that KIPL will continue to benefit from the extensive experience of its management and established relationships with its suppliers and customers.

Key rating drivers and their description

Credit strengths

Extensive experience and technical qualification of promoters in the wool/textile industry – KIPL was established in 2008 by Mr. Rajiv Kapur and Mr. Varun Kapur, who are technically qualified and have a wide experience in manufacturing and marketing of woollen yarns for the carpet industry. Mr. Rajiv Kapur has an experience of more than four decades in this industry, which has helped the company to establish healthy relationship with a few big players in the rugs and carpets industry in the international market.

Improved profit margin and capital structure in FY2019 and 10M FY2020 - KAPL's profit margin improved to 17.89% in FY2019 from 8.53% in FY2018 following economies of scale and decline in raw material consumption. Increase in cash accruals and repayment of term loan resulted in improvement in gearing to 0.77 time as on March 31, 2019 from 1.21 times as on March 31, 2019. The interest coverage indicator measured as operating profit/interest and finance expense stood at 4.33 times in FY2019 compared to 0.85 time in FY2018. The operating profit margin improved further to 24.07% in 10MFY2020 (as per the provisional figures).

Credit challenges

Modest scale of operations – KIPL's scale of operations has remained moderate during the period under review. The operating income surged by 119% in FY2019 and stood at Rs. 21.35 crore on the back of healthy order inflows. However, it continues to remain modest. The turnover in FY2018 was hit by spillover of orders from Q4FY2018, which were executed in FY2019. The company reported operating income of ~Rs. 18.50 crore for FY2020. ICRA further notes that the company derives over 95% of its revenues from the overseas market and the ongoing uncertainty in the global market due to covid-19 outbreak, can adversely impact the company's sales in the near term.

Concentrated customer base- KIPL's reliance on a single customer has increased over the last two years. The share of the major customer to the total revenues stood at 51% in FY2019 and 42% in 10MFY2020 compared to 15% in FY2018. While, the company enjoys established relationships with the customer, its high reliance on limited customers its revenues to customer concentration risk.

Stretched liquidity profile because of high inventory levels and debtors in FY2019 and 11MFY2020 following lockdown – KIPL's operations are working capital intensive due to high inventories and debtors. The intensity reduced to 26% in FY2019 from 54% in FY2018 owing to reduction in inventory days. The company needs to stock wool following the seasonal availability of the same. It extends average credit period of 75 days to its customers, resulting in high receivables. Furthermore, the recent lockdown announced in India and at KIPL's exporting countries, has resulted in high debtors and inventory build-up as on March 24, 2020 following delay in shipments.

Margins remain exposed to forex rate fluctuation risks and raw material price fluctuations - As the company earns its revenue primarily from exports, its margins are susceptible to foreign exchange rates fluctuations in the absence of any hedging policy. However, the risk is partly mitigated by the fact that ~90% of its procurement is import dominated. Furthermore, the company enters into fixed price contract with its customers, thus any increase in wool prices and its inability to pass on the increase in raw material prices could affect KIPL's profitability. However, with ~60% of its procurement being order-backed, this mitigates the raw material price fluctuation risk to an extent.

Margin remains under pressure due to intense competition in the industry - KIPL faces stiff competition from overseas players in this sector. However, the company enjoys an edge over international players in terms of lower labor costs.

Liquidity Position: Stretched

KIPL's liquidity has remained stretched due to low cash accruals and a significant amount blocked in inventory and debtors as on March 2020 following the lockdown at various countries, including India. The company has repayment obligation of Rs. 0.90 crore in FY2021 and Rs. 0.20 crore in FY2022. While, ICRA notes that moratorium period of three months and the ad hoc limit of Rs. 0.50 crore extended by the bank will allow the company to manage its liquidity for the next three months, any recovery in the global market remains uncertain. The average utilisation of fund-based and non-fund limits stood at 81% and 85%, respectively, during the past one year.

Rating sensitivities

Positive triggers – ICRA could upgrade KIPL's rating following efficient management of its working capital cycle on a sustained basis. The company's ability to sustain its revenue growth and profit margin will also remain critical for a rating upgrade.

Negative triggers – ICRA could downgrade the rating following deterioration in profit margin and increase in working capital intensity. The company's inability to generate commensurate returns from the capex will also exert pressure on the rating.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

KIPL was incorporated on May 29, 2008 by Mr. Rajiv Kapur and Mr. Varun Kapur. The company manufactures and exports woollen yarn in the form of worsted spun yarn and carded yarn. The company's wool yarn finds application in the manufacturing of rugs, floor coverings and carpets. KIPL's registered office is in Kurla, Mumbai (Maharashtra), and its manufacturing unit is at the Gujarat Industrial Development Corporation (GIDC) area of Valsad with an installed production capacity of 1,200 metric tonne per annum. The company has set up another unit at GIDC (adjacent to the prevailing unit), where dyeing operations are undertaken, along with two additional lines for carding.

In FY2019, the company reported a net profit of Rs. 2.03 crore on an OI of Rs. 21.25 crore, compared to net loss of Rs. 0.83 crore on an OI of Rs. 9.73 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	9.73	21.35
PAT (Rs. crore)	-0.83	2.03
OPBDIT/OI (%)	8.53%	17.89%
RoCE (%)	0.90%	17.50%
Total Outside Liabilities/Tangible Net Worth (times)	1.93	1.42
Total Debt/OPBDIT (times)	11.94	2.07
Interest Coverage (times)	0.85	4.33
DSCR	0.40	1.68

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating 7-May-20	FY2020 5-Apr-19	FY2018 07-Mar-18	FY2017 07-Dec-16
1. Term Loan	Long-Term	2.28	2.28*	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB (Stable)
2. Cash Credit	Long-Term	(1.50) [#]	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]BB (Stable)
3. Export packing Credit/Packing credit in Foreign Currency/ Export Bill Discounting	Short-Term	5.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4. Letter of Credit	Short-Term	5.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5. Bank Guarantee	Short-Term	0.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6. Credit Exposure Limit	Short-Term	0.10	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
7. Unallocated Limits	Long-Term/Short-Term	1.40	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4		

*as on March 31, 2019

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Dec-15	12.5% p.a.	Jan-21	2.28	[ICRA]B+(Stable)
NA	Cash Credit	NA	NA	NA	(1.50) #	[ICRA]B+(Stable)
NA	Export packing Credit/Packing credit in Foreign Currency/ Export Bill Discounting	NA	NA	NA	5.00	[ICRA]A4
NA	Letter of Credit	NA	NA	NA	5.00	[ICRA]A4
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A4
NA	Credit Exposure Limit	NA	NA	NA	0.10	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	1.40	[ICRA]B+(Stable)/ [ICRA]A4

#Sub limit of Export Packing Credit/Packing credit in Foreign Currency/ Export Bill Discounting facility of Rs. 5 crore

Source: KIPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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