

August 06, 2020

## Kumar Arch Tech Private Limited: Ratings assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – CC limits	15.00	[ICRA]BBB-(Stable); assigned
Long-term Fund-based – Term Loan	5.60	[ICRA]BBB-(Stable); assigned
Short-term Non-fund based limits	20.40	[ICRA]A3; assigned
Long-term/Short-term – Unallocated	4.00	[ICRA]BBB-(Stable)/A3; assigned
<b>Total</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings favourably factor in Kumar Arch Tech Pvt. Ltd's (KATPL) experienced promoters and established track record in poly vinyl chloride (PVC) and wood plastic composite (WPC) sheet manufacturing. The ratings also derive strength from KATPL's strong financial profile as reflected by healthy gearing and coverage indicators. Moreover, the ratings take into account the wide range of applications of the company's products in various industries including education, construction, signage, advertising, etc. The ratings also derive comfort from the sustained top-line growth over the years on account of a rapid growth in exports and KATPL's association with reputed brands in the overseas market.

The ratings are, however, constrained by the vulnerability of profitability margins to movements in the prices of its key raw materials—PVC resin. The company is also exposed to foreign exchange fluctuations, though the risk is partially mitigated by a natural hedge through significant imports. The ratings also factor in the exposure to competitive pressures from unorganised as well as large, organised players in the domestic market and other low-cost international players. The ratings also take in account the working capital-intensive nature of business driven by high receivables and inventory, which has led to moderately high utilisation of fund-based limits.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that KATPL will continue to benefit from the extensive experience of its promoters and established brand position.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters with established track record of operations in industry** – The promoter family has an experience of more than two decades in PVC manufacturing business. Mr. Shubham Taylia, Director, is assisted by other family members and a team of qualified top managerial personnel in managing day-to-day operations of the company. KATPL has an established market position with a strong dealership network and three manufacturing facilities with a cumulative production capacity of around 14,000 MTPA.

**Diversified product portfolio** – KATPL manufactures of PVC boards and WPC boards. PVC, being an eco-friendly product with physical properties suitable for a wide range of interior and exterior applications, is used to complement several other building materials such as fibre, cement and wood. KATPL offers a variety of product portfolio with their applications in educational posters based on signage, advertising industry, PVC doors and floorings, interior decorations, prefabricated construction, etc. The wide range product applications result in low dependence of company on any one industry for sales of its products.

**Comfortable capital structure** – KATPL's capital structure is comfortable with gearing and TOL/TNW at 0.60 times and 1.19 times, respectively as on March 31, 2020 owing to low debt levels. KATPL's total debt stood at Rs. 18.75 crore in FY2020, which comprised working capital borrowings of Rs. 11.56 crore, external long-term debt of Rs. 6.02 crore and unsecured loans from promoters and related parties of Rs. 1.18 crore. The coverage indicators remained healthy with interest coverage of 4.50 times and debt service coverage of 3.30 times as per the provisional statements of FY2020.

## Credit challenges

**Highly fragmented and competitive industry limits pricing flexibility** – A large part of the PVC industry comprises small unorganised players, primarily catering to local demand. While low entry barriers have resulted in high fragmentation in the domestic PVC industry, the competition from low-cost international players in the global markets limits the company's pricing flexibility in the overseas market. KATPL also faces risk of product duplication from the unorganised domestic segment.

**Margins exposed to forex fluctuation risk; though partially mitigated by natural hedge** – With the increasing contribution of export sales in the top line, KATPL's margins remain exposed to the vagaries of the currency markets. This risk is, however, partially mitigated by a natural hedge through imports. KATPL meets 65–75% of its total raw material requirements through imports.

**Exposed to raw material price fluctuations** – Raw material cost is the largest component of the cost structure of PVC manufacturing process. The key raw material used for manufacturing is PVC resin, which is a crude oil derivative. Hence, PVC resin prices of most plastics follow the international crude oil prices, albeit with a lag. This exposes the company's profitability to such fluctuation in prices.

**Highly working capital-intensive nature of operations** – KATPL's working capital-intensive nature of operations is reflected in high inventory holding and high receivables. The company usually holds high inventory of raw material in order to take advantage of the favourable price fluctuations. The company's working capital requirement is largely funded by stretching payments to creditors as evident from the high creditor days.

## Liquidity position: Adequate

KATPL has **adequate** liquidity position on account of the healthy cash accruals it has generated on a sustained basis. The moderate utilisation of working capital limits (averaging 86% for the last 12 months ending in June 2020) provides additional avenues of liquidity to the company. Additionally, the steady growth in its accruals are adequate to meet the scheduled debt repayment obligations. Unsecured loans from promoters and related parties to support capital intensive nature of operations provide additional comfort.

## Rating sensitivities

**Positive trigger:** A rating upgrade could be triggered by a significant growth in operating income (OI), supported by an increase and sustainability in operating margins, which leads to an improvement in the return indicators and better cash flow generation.

**Negative trigger:** Negative pressure on the rating could arise if KATPL reports higher-than-anticipated decline in revenues or a reduction in profitability, or a weakening of the overall financial profile due to sizeable debt-funded capex and lack of commensurate returns from the same. Deterioration in the liquidity profile leading to high utilisation of working capital limits on a sustained basis could also exert downward pressure. Specific indicators include, but not limited to, interest coverage below 3 times.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of KATPL

## About the company

Kumar Arch Tech Pvt. Ltd. (KATPL), incorporated in 1998, is involved in PVC/WPC-extrusion board manufacturing. It supplies premier quality PVC board and WPC board along with other products in both domestic and export markets under the brand name ECHON. The company offers a wide range of products, which include building materials, doors and frames, PVC floorings, signage materials and PVC-based decorative articles.

The company has three ISO 9001-2008 and 14001-2004 certified operational units located at Gudli Industrial Area, Udaipur with an aggregate installed capacity of 14,000 MTPA.

## Key financial indicators (Audited/Provisional)

	FY2019 (A)	FY2020 (P)
Operating Income (Rs. crore)	135.38	122.68
PAT (Rs. crore)	3.88	5.91
OPBDIT/ OI (%)	7.11%	10.91%
RoCE (%)	18.4%	22.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.13	1.19
Total Debt/ OPBDITA (times)	1.77	1.40
Interest Coverage (times)	3.73	4.50
DSCR	2.69	3.30

Source: Company data

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2021 6-Aug-2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
Fund-based – CC limits	Long Term	15.00	-	[ICRA]BBB-(Stable)	-	-	-
Fund-based – Term Loan	Long Term	5.60	5.60	[ICRA]BBB-(Stable)	-	-	-
Non-fund based limits	Short-term	20.40	-	[ICRA]A3	-	-	-
Unallocated	Long-term/ Short-term	4.00	-	[ICRA]BBB-(Stable) / A3	-	-	-

## 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 [click here](https://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	Long-term Fund-based – CC limits	-	-	-	15.00	[ICRA]BBB-(Stable)
NA	Long-term Fund-based – Term Loan	Aug 2019	-	Jul 2024	5.60	[ICRA]BBB-(Stable)
NA	Short-term Non-fund based limits	-	-	-	20.40	[ICRA]A3
NA	Long-term/Short-term – Unallocated	-	-	-	4.00	[ICRA]BBB-(Stable) / A3

Source: KATPL

### Annexure-2: List of entities considered for consolidation: Not applicable

## ANALYST CONTACTS

**K. Ravichandran**  
+91 44 45964301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Manish Ballabh**  
+91 124 4545 812  
[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Gaurav Singla**  
+91 124 4545 366  
[gaurav.singla@icraindia.com](mailto:gaurav.singla@icraindia.com)

**Anshul Shah**  
+91 124 4545 372  
[anshul.shah@icraindia.com](mailto:anshul.shah@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002  
Tel: +91 124 4545300  
Email: [info@icraindia.com](mailto:info@icraindia.com)  
Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001  
Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents