

Khatushyam Processors (P) Limited

October 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Cash Credit	5.00	5.00	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Fund-based-Term Loan	3.19	3.19	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)
Fund-based-Working capital Term Loan	0.40	-	-
Non-fund based-Letter of Credit	1.00	1.00	[ICRA]A4; Reaffirmed
Non-fund based-Buyer's Credit [#]	(1.00)	(1.00)	[ICRA]A4; Reaffirmed
Non-fund based-Bank Guarantee [#]	(1.00)	(1.00)	[ICRA]A4; Reaffirmed
Unallocated Limits	2.31	2.71	[ICRA]BB- (Stable); Upgraded from [ICRA]B+ (Stable)/[ICRA]A4; Reaffirmed
Total	11.90	11.90	

[#]Sub limit of Letter of Credit

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]B+ (pronounced ICRA B plus) for the Rs. 5.00-crore¹ cash credit and the Rs. 3.19 crore term loan facilities of Khatushyam Processors (P) Limited (KPPL or the company)². ICRA has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 1.00-crore non-fund based letter of credit facility, the Rs. 1.00-crore non-fund based buyer's credit (sublimit of letter of credit) and the Rs. 1.00-crore non-fund based bank guarantee (sublimit of letter of credit) of KPPL. ICRA has also upgraded the long-term rating to [ICRA]BB- from [ICRA]B+ and reaffirmed the short-term rating of [ICRA]A4 for the Rs. 2.71 crore unallocated limits of KPPL. The outlook on the long-term rating is Stable.

Rationale

The rating upgrade considers the healthy revenue growth in FY2018 and the expected improvement in capital structure and debt coverage indicators in FY2019, in line with the overall improvement in profitability and scheduled debt repayments. Nonetheless, the capital structure and coverage indicators will continue to remain at average in the medium term, given the moderate profit margins and the small net worth base of the company. The ratings also draw comfort from the extensive experience of the promoters in the fabric processing industry and the favourable location of the company's manufacturing facility, which has resulted in easy accessibility of key raw materials and proximity to end-users.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings, however, remain constrained by KPPL's moderate scale of operations and high working capital intensity of operations driven by high receivable days. The ratings also factor in the highly fragmented fabric processing industry, with intense competition from numerous unorganised players, which limits pricing flexibility. The ratings also reflect the vulnerability of its profitability to adverse fluctuation in the raw material prices and the cyclicity inherent in the textile industry.

Outlook: Stable

ICRA believes KPPL will continue to benefit from the extensive experience of its promoters in fabric processing industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if the company reports substantial decline in revenue and profitability, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle weakens the company's overall liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in fabric processing industry – KPPL is primarily involved in dyeing and printing of synthetic fabric on job work basis. Its key promoters, Mr. Ramesh Khatri, Mrs. Vaishali Khatri, Mr. Rajesh Khatri and Mr. Vikram Jain, have more than a decade-long experience in the fabric processing industry.

Location advantage by proximity to raw materials – KPPL's processing unit is located in the Surat district of Gujarat, which is the industrial hub for textiles. The proximity of the company's processing unit to the suppliers of key raw materials i.e. fabric, chemicals, colours etc. provides logistic convenience, while ensuring prompt receipt of raw materials.

Healthy revenue growth and reduction in debt obligation – The company's operating income continued to grow at a healthy rate in FY2017 (~21%) and FY2018 (~11%) on the back of increased sales volumes and realisation. Consequently, the NCA increased by ~1.42 times to Rs. 2.01 crore in FY2018 from Rs. 1.42 crore in FY2016.

Credit challenges

Modest scale of operations; intense industry competition – The company's scale of operation, despite the improvement, continues to remain moderate— the sales was Rs. 33.26 crore in FY2018 and ~Rs. 17.31 crore in 6M FY2019 (provisional figures). Further, the stiff competition in the highly fragmented fabric processing industry restricts the company's pricing flexibility.

Average financial risk profile –The capital structure remained moderate, as evident from the gearing of 1.85 times as on March 31, 2018, which improved from 1.92 times as on March 31, 2017 due to ongoing repayment of term loan. The debt coverage indicators were average — the interest coverage was 2.53 times and Total Debt/OPBDITA was 3.57 times in FY2018. Further, with expected improvement in cash accruals, reduction in debt levels and absence of any major capex in the medium term, capital structure and coverage metrics are expected to improve in FY2019 and FY2020.

High working capital intensity – The working capital intensity of the company remained high in FY2018 as reflected by NWC/OI of ~25%, due to high debtor days (~112 days) in the same fiscal. Correspondingly, the average working capital limit utilisation remained high at 81% from July 2017 to September 2018. Improvement in receivable cycle and ramp up in sales in current fiscal are expected to improve the financial scenario.

Vulnerability of profitability to fluctuations in raw material prices – With limited pricing flexibility on account of intense industry competition, the company’s profit margins are vulnerable to fluctuation in prices of key raw materials i.e. dyes, colours and chemicals.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 2009, Khatushyam Processors (P) Limited (KPPL) is involved in dyeing and printing of synthetic fabric on job work basis. The company’s processing unit is at Palsana, in the Surat district of Gujarat and is equipped with an annual installed capacity of dyeing 6 crore metres of fabric and printing 30 lac metres of fabric per annum. The company is managed by Mr. Ramesh Khatri, Mrs. Vaishali Khatri, Mr. Rajesh Khatri and Mr. Vikram Jain.

In FY2018, the firm reported a net profit of Rs. 0.41 crore on an operating income of Rs. 33.26 crore, as compared to a net profit of Rs. 0.37 crore on an operating income of Rs. 29.84 crore in the previous fiscal.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	29.84	33.26
PAT (Rs. crore)	0.37	0.41
OPBDIT/ OI (%)	10.94%	10.71%
RoCE (%)	11.61%	10.31%
Total Debt/ TNW (times)	1.92	1.85
Total Debt/ OPBDIT (times)	3.79	3.57
Interest Coverage (times)	2.28	2.53

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					May 2017	May 2016	July 2015	
1	Cash Credit	Long Term	5.00	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]BB-(Stable)
2	Term Loan	Long Term	3.19	2.50	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]BB-(Stable)
3	Working Capital Term Loan	Long Term	0.40	-	-	[ICRA]B+(Stable)	[ICRA]B+	[ICRA]BB-(Stable)
4	Letter of Credit	Short Term	1.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5	Buyer's Credit [#]	Short Term	(1.00)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6	Bank Guarantee [#]	Short Term	(1.00)	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
7	Unallocated Limits	Long Term/Short Term	2.71	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]B+(Stable)/[ICRA]A4	-	-

[#]Sub limit of Letter of Credit

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	Cash Credit	NA	NA	NA	5.00	[ICRA]BB- (Stable)
NA	Term Loan	FY2017	NA	FY2022	3.19	[ICRA]BB- (Stable)
NA	Letter of Credit	NA	NA	NA	1.00	[ICRA]A4
NA	Buyer's Credit [#]	NA	NA	NA	(1.00)	[ICRA]A4
NA	Bank Guarantee [#]	NA	NA	NA	(1.00)	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	2.71	[ICRA]BB- (Stable)/[ICRA]A4

[#]Sub limit of Letter of Credit

Source: Khatushyam Processors (P) Limited

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
k.ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Jaimin Patel
+91 79 4027 1550
jaimin.patel@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

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

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

Website: 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) 6606 9999

© Copyright, 2018 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 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