

February 20, 2023

Kumar Arch tech Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based/Working Capital limits	15.00	20.00	[ICRA]BBB(Stable); reaffirmed and assigned for enhanced amount
Long-term: Fund-based – Term Loan	5.60	10.00	[ICRA]BBB (Stable); reaffirmed and assigned for enhanced amount
Short-term: Non-fund based	20.40	32.00	[ICRA]A3+; reaffirmed and assigned for enhanced amount
Long-term / Short-term: Unallocated	4.00	68.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed and assigned for enhanced amount
Total	45.00	130.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the extensive experience of the promoters, with an established track record in poly vinyl chloride (PVC) and wood plastic composite (WPC) based products and KATPL's established track record of exports primarily to the United States of America (USA). The company witnessed a healthy growth in its operating income (OI) by 84% to Rs. 262.6 crore in FY2022, which is further expected to grow by around 40-45% in FY2023, supported by an increase in sales volumes and realisations. KATPL's operating margins are likely to increase by around 180-190 bps in FY2023, backed by moderation in raw material costs, which along with moderate debt levels, is likely to result in comfortable leverage and debt coverage metrics. Moreover, it has a reputed client profile consisting of large building material suppliers in its key export markets. It also benefits from a wide range of applications of its products in various industries including construction, signage, advertising, education, etc.

The ratings, however, are constrained by the exposure of KATPL's profitability to raw material price fluctuations, which is a crude oil derivative. The ratings consider the intense competition in the industry due to the presence of various organised as well as unorganised players, which limits its pricing flexibility. In FY2022, KATPL witnessed a moderation in its profit margins owing to an increase in PVC resin prices and rising freight container costs. The ratings are constrained by the exposure of its profitability to forex fluctuation risk as it derives around 80% of its revenues from exports and the company does not hedge its forex risk exposure. However, the exposure is partially mitigated by the natural hedge as it imports over 60% of the raw materials. The ratings are further constrained by the moderate working capital (WC) intensity, led by elongated receivables position and high inventory holdings, which are primarily funded through payables to suppliers backed by letters of credit (LoCs). However, the company has enhanced its sanctioned fund-based limits by Rs. 10 crore and is planning to enhance the same further by Rs. 15 crore in Q4 FY2023, which is expected to support the liquidity position.

The Stable outlook on the long-term rating reflects ICRA's opinion that KATPL will continue to benefit from the extensive experience and long track record of its promoters in the PVC/WPC products manufacturing industry, its established relationship with customers, and its comfortable debt coverage metrics.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record of operations in PVC/WPC products manufacturing industry – The promoters have been involved in the PVC/WPC-based products manufacturing industry for more than two decades. It has an established market position with a strong dealership network comprising over 120 dealers in the domestic and international market. It has three manufacturing facilities with a cumulative production capacity of around 18,000 MTPA. The promoters' long presence in the industry has aided KATPL to establish strong relationships with customers and suppliers across multiple sectors, supporting its business growth over the last few years.

Diversified product portfolio and multiple end-user industry presence – KATPL offers a diversified product portfolio such as building materials, signage material, doors and flooring materials, decorative articles, PVC sheets and boards, which find application in various industries including construction, signage, advertising, education, etc. The wide range of product applications results in low dependence on any single industry for sales of its products. Thus, the operations remain largely insulated from the risk of slowdown in any industry. Also, the company has a reputed client profile consisting of large building material suppliers in its key export markets. It directly supplies PVC-based construction material to distributors (like Bluelinx Corp.) and retailers (like Lico US Inc, Acoustic Ceiling Products LLC, etc).

Increase in OI in FY2022 and trend likely to continue in FY2023; comfortable debt coverage metrics – The company's OI witnessed a compound annual growth rate (CAGR) of 26.6% during the last five years to Rs. 262.2 crore in FY2022 from Rs. 102.4 crore in FY2018, mainly due to a deeper penetration in the market and increased demand from the international market. In H1 FY2023, the company reported an OI of Rs. 189.4 crore. The same is estimated to grow by around 40-45% in FY2023, supported by an increase in sales volumes and realisations. KATPL's operating margins are expected to increase by around 180-190 bps in FY2023 backed by moderation in raw material costs, which along with moderate debt levels, is likely to result in comfortable leverage and debt coverage metrics.

Credit challenges

Exposure to raw material price fluctuations and intense competition in industry – The company's revenue and margins are exposed to the price fluctuation in PVC resin, which is a crude oil derivative. Any adverse movement in key raw material prices (PVC resin, plasticisers) could have a negative impact on its margins, considering the stiff competition in the industry as well as lag in passing on the higher raw material prices to customers. While the company was able to pass on majority of the input cost escalations, the global surge in freight rates continued to exert pressure on the margins in FY2022. ICRA notes that a large part of the PVC-based products industry is highly fragmented with the presence of a large number of participants in the organised and unorganised sectors, which limits KATPL's pricing flexibility.

Margins exposed to exchange rate fluctuations – Being a net exporter, KATPL's margins are susceptible to foreign exchange fluctuations in the absence of any active hedging mechanism. This risk is, however, partially mitigated by a natural hedge through imports. KATPL meets over 60% of its total raw material requirements through imports, with exports accounting for over 80% of its revenue during the last two years (FY2021-FY2022).

Working capital-intensive nature of operations – The company's operations remain working capital-intensive by nature due to high receivables and inventory holding, which can be attributed to its growing scale of operations and diverse product portfolio. It has reported elongated receivables position (61-112 days during the last five years) and high inventory holdings, which are primarily funded by LC-based creditors. The payable days were elevated, ranging from 68-168 days during the last five years. However, KATPL has enhanced its sanctioned fund-based limits by Rs. 10 crore and is planning to enhance the same further by Rs. 15 crore in Q4 FY2023, which is expected to support the liquidity position.

Liquidity position: Adequate

KATPL's liquidity position is adequate, with free cash and cash equivalents of Rs. 3.9 crore as on September 30, 2022 and unutilised fund-based limits of Rs. 15.6 crore as on December 31, 2022. The utilisation of working capital limits remained at 67.7% (for Rs. 20 crore sanctioned limits) in the past 15 months that ended in December 2022. The company has enhanced the fund-based working capital limits by Rs. 10 crore recently and is planning to enhance the same further by Rs. 15 crore in Q4 FY2023, which will support the liquidity position. It has repayment obligations of around Rs. 3.5 crore in FY2024, which are expected to be met from its cash flow from operations. KATPL has capex plans of Rs. 9.0 crore in FY2024-FY2025, which are proposed to be met from its internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates significant and sustainable improvement in its scale of operation and profitability, along with strengthening of liquidity position, while maintaining a comfortable debt protection metrics.

Negative factors – Negative pressure on the ratings could arise if KATPL reports a significant decline in revenues or profitability, or if there is a weakening of the overall financial profile due to sizeable debt-funded capex. Deterioration in the liquidity profile, on a sustained basis, could also exert downward pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1998, Kumar Arch Tech Private Limited, 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 in Gudli Industrial Area, Udaipur, with an aggregate installed capacity of 18,000 MTPA. KATPL plans to set up a new facility with an installed capacity of 6,500 MTPA which is likely to commence operations from H2 FY2025. The expansion is expected to be funded through internal accruals.

Key financial indicators

	FY2021 Audited	FY2022 Audited	H1 FY2023 Provisional
Operating income (Rs. crore)	142.5	262.6	189.4
PAT (Rs. crore)	9.8	15.1	16.9
OPBDIT/OI (%)	12.1%	9.1%	13.5%
PAT/OI (%)	6.9%	5.7%	8.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.7	1.4
Total debt/OPBDIT (times)	0.9	1.2	0.6
Interest coverage (times)	6.8	10.0	17.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/Avg (Total debt + Tangible net worth + Deferred tax liability - Capital work in progress); DSCR: (PBIT + Mat credit entitlements - Fair value gains through P&L - Non-cash extraordinary gain/loss)/(Interest + Repayments made during the year)

Source: Company data; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
			Amount outstanding as on Jan 31, 2023 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Feb 20, 2023	Nov 30, 2021	Aug 06, 2020	-	
1 Fund-based – Working Capital Limits	Long term	20.00	-	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	-	
2 Fund-based – Term Loans	Long term	10.00	8.6	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	-	
3 Non-fund based – Working Capital Limits	Short Term	32.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	-	
4 Unallocated Limits	Long term/ Short-Term	68.00	-	[ICRA]BBB(Stable) / [ICRA]A3+	[ICRA]BBB(Stable) / [ICRA]A3+	[ICRA]BBB-(Stable)/ [ICRA]A3	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Working Capital Limits	Simple
Fund-based – Term Loans	Simple
Non-fund based – Working Capital Limits	Very Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Working Capital Limits	NA	NA	NA	20.00	[ICRA]BBB(Stable)
NA	Fund-based –Term Loans	FY2021-FY2022	7.9-9.2%	FY2027	10.00	[ICRA]BBB(Stable)
NA	Non-fund based – Working Capital Limits	NA	NA	NA	32.00	[ICRA]A3+
NA	Unallocated Limits	NA	NA	NA	68.00	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company data; ICRA Research

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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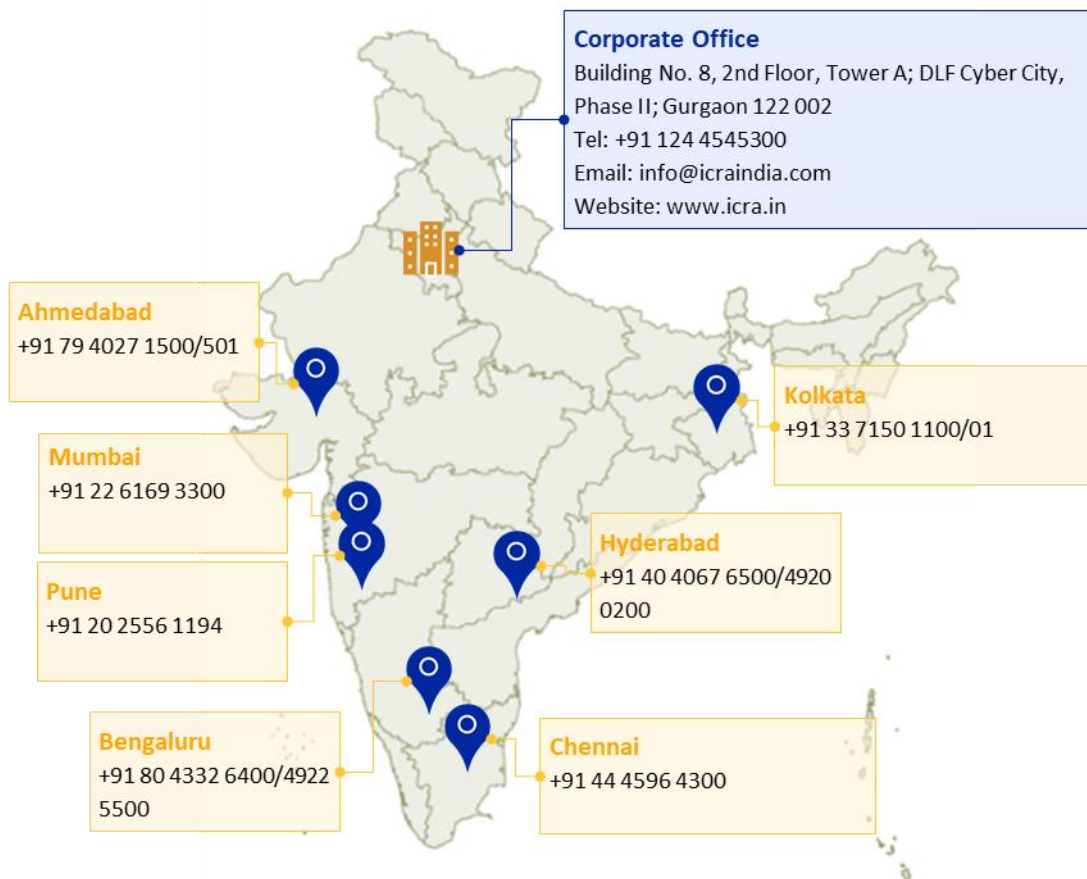
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