



Press Release

Kushal Polysacks Private Limited

August 08, 2020

Ratings

Sl. No.	Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	57.00 (enhanced from 36.00)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed
2	Short Term Bank Facilities	15.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	72.00 (Rs. Seventy Two crore Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kushal Polysacks Private Limited (KPPL) continues to derive comfort from its long track record of operation under experienced promoters, association with reputed organisations and advantage of group support. The ratings also continue to note diversification initiative by the company with increase in focus to high margin dredging works and its moderate order book giving visibility to revenue in the medium term and satisfactory profitability. These rating strengths are partially offset by its weak financial risk profile marked by small scale of operation, leveraged capital structure, moderate debt coverage indicators, regional concentration risk, high exposure to group companies and high working Capital intensity. Further, the ratings also consider dependence of its fortune on principal and presence in highly fragmented & competitive nature of its operating spectrum.

Rating Sensitivities

Upward factors

- Significant growth in scale of operations on a sustained basis
- Improvement in the capital structure with overall gearing improves to below 1.5x
- Improvement in the operating cycle and consequent improvement in liquidity with improvement in average working capital limit utilisation below 90% on sustained basis

Downward Factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile



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- Further moderation in the capital structure with deterioration in overall gearing to more than 5x
- Deterioration in the interest coverage ratio to below 1.5x

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Long track record of operation under experienced promoters**

Mr. Naresh Kumar Agarwala, managing director, has over three decades of experience in the PP/HDPE manufacturing industry. His son Mr. Kushal Agarwala, a management graduate, also has about a decade of experience in the business operation. They are well assisted by an experienced team of professionals with considerable experience in the similar industry. Further, being in polymer manufacturing business since 1996, KPPL, has a considerable experience and a proven track record.

- **Association with reputed organisations**

Since 2011, the company started operating as Del-Credere Agent (DCA) of Indian Oil Corporation Limited (IOCL) for PP granules. KPPL is one of the largest DCA of IOCL and has been awarded the Star DCA of IOCL in India. This apart, KPPL undertakes canal and small river dredging projects under various Municipal authorities and West Bengal State Government. The association with reputed organisations leads to minimal risk of default and ensures regular orders.

- **Advantage of group support**

KPPL is part of the Kushal Bharat Group promoted by Mr. Naresh Kumar Agarwal, which has diversified business interests, comprising of cement, woven sacks, polymer distribution, iron & steel, real estate, hotel and railway engineering products. As the promoters are resourceful and the group has diversified business profile, the company can enjoy group support at the time of stress.

- **Earnings to be driven by high margin dredging works and moderate order book giving visibility to revenue in the medium term**

The company is shifting its focus to high margin dredging related works going forward in view of high opportunities in this segment. Currently, it has order in hand amounting to Rs.30.42crore as on February 29, 2020 for execution of dredging works and small-scale civil construction. The same is 3.52x of FY19 turnover of the company. The orders are expected



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to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. Infomerics expects that the growth and profitability of the company will be driven by its ability to procure and execute more orders in the dredging segment going forward.

- **Satisfactory profitability**

The company has satisfactory profit margin, where EBITDA and PAT margin was at 48.10% and 11.33% respectively in FY19, improved from 15.13% and 5.97% respectively in FY18 on the back of increase in higher margin dredging work in the revenue segments.

Key Rating Weaknesses

- **Weak financial risk profile marked by small scale of operation, leveraged capital structure, moderate debt coverage indicators**

KPPL is relatively a small player with a total operating income of Rs.8.63 crore in FY19. The total operating income of the company dampened in FY19 by ~19% over FY18 on account of fall in demand in polymer user industry due slowdown in economy demonetization effect in SME segment. The small scale restricts the financial flexibility of the company in times of stress. Further, the company has estimated to achieve a total operating income of ~Rs.9.00crore during FY20. Going forward, Infomerics expects that the total operating income of the company will continue to increase. This apart, the capital structure of the company remained leveraged marked by its high overall gearing of 4.30x as on March 31, 2019, due to its high utilisation of bank borrowing. However, the interest coverage ratio was satisfactory at 1.56x in FY19.

- **Fortune depended on principal and presence in highly fragmented & competitive nature**

As KPPL works as DCA of IOCL, the business of the company is largely depended on the demand of IOCL polymer products in the industry. This apart, as the dredging works as tender driven, business certainty is dependent on the ability to successfully bid for the tenders as entire business is tender based. Such sector is highly fragmented with presence of many players with varied statures & capabilities.

- **Regional concentration risk**



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KPPL is predominantly working in the state of West Bengal, hence has high degree of geographical concentration. However, long standing experience of the promoters in this segment and in the state of West Bengal imparts comfort.

- **High exposure to group companies**

The company has high exposure towards its other group companies in the form of corporate guarantee extended. However, the group companies are operational which imparts comfort.

- **High working Capital intensity**

KPPL, being a Del Cre-dere Agent, is exposed to the inherent counterparty credit risk as the receivables of IOCL is transferred to the company; thus, resulting in high working capital requirements. The company has long working capital cycle marked by high Gross Current Assets (GCA) of 2891 days in FY19 compared to 1915 days in FY18. The GCA days are mainly consists of high debtors of 2465 days in FY19 compared to 1847 days in FY18. However, the company also enjoys creditor period of around 970 in FY19 (423 days in FY18). The high working capital intensive nature of operation leads to high average utilization of fund-based limit to around ~98% for the last 12 months ended June 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Adequate

The liquidity profile of KPPL is expected to remain adequate marked by its estimated satisfactory cash accrual of ~Rs.1.38 crore vis a- vis its low debt repayment obligations of ~0.45 crore in FY20. Further, the company has no planned capex or availment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to KPPL's working capital intensive nature of operations marked by elongated operating cycle. Further, the average bank borrowing utilisation of the company remained high at ~98% during the past 12 months ended June, 2020 indicating a limited liquidity cushion.



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About the Company

Kushal Polysacks Private Limited (KPPL), promoted by Mr. Naresh Kumar Agarwal based out of Kolkata. The company commissioned its business from October 1996 and was in manufacturing of Polypropylene (PP) and High-density polyethylene (HDPE) products. Later, since 2011, the company started operating as Del Cre-dere Agent (DCA) of Indian Oil Corporation Limited (IOCL) for PP granules. KPPL has been awarded the Star DCA of IOCL in India. In FY15, the company had transferred the manufacturing activity to its group company Samarth Fablon Private Limited. Furthermore, since FY17, apart from DCA activities, the company has started dredging works of canals in and around West Bengal. KPPL is part of the Kushal Bharat Group promoted by Mr. Naresh Kumar Agarwal, which has diversified business interests, comprising of cement, woven sacks, polymer distribution, iron & steel, real estate, hotel and railway engineering products.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	10.68	8.63
EBITDA	1.62	4.15
PAT	0.80	1.02
Total Debt	51.62	56.84
Tangible Net worth	12.21	13.23
EBITDA Margin (%)	15.13	48.10
PAT Margin (%)	5.97	11.33
Overall Gearing Ratio (x)	4.23	4.30

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: INC from Brickwork vide PR dated January 16, 2020 due to non-submission of information.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Cash Credit	Long Term	57.00	IVR BB+ / Stable	IVR BB+ / Stable (July 28, 2020)	-	-	-
2	Bank Guarantee	Short Term	15.00	IVR A4+	-	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits - Cash Credit	-	-	-	57.00	IVR BB+/Stable
Short Term Non-Fund Based Limits - Cash Credit	-	-	-	15.00	IVR A4+