



## Press Release

### Kennigton Industries Private Limited (KIPL)

March 16, 2021

#### Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	17.50	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Proposed Long Term Bank Facilities – Cash Credit	7.50	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term /Short Term Bank Facilities – LC/Buyers Credit	97.50	IVR BBB- /Stable/ IVR A3 (IVR Triple B Minus with Stable Outlook/IVR Single A Three)	Assigned
Proposed Long Term /Short Term Bank Facilities – LC/Buyers Credit	22.50	IVR BBB- /Stable/ IVR A3 (IVR Triple B Minus with Stable Outlook/IVR Single A Three)	Assigned
<b>Total</b>	<b>145.00 (One Hundred and Forty-Five)</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to bank facilities of Kennigton Industries Private Limited factors Experienced Promoters, Well Diversified and Established Customer Base and Moderate Financial Risk Profile. However, rating is constrained owing to Vulnerability of Profitability to Fluctuations in Raw Material Prices and Intense Competition Due to Fragmented Nature of Industry with Presence of Large Number of Players in The Organised and Unorganised Segment.

#### Key Rating Sensitivities:

##### Upward Factors

- Sustained improvement in scale of operations coupled with improvement in profit margins, while maintaining working capital cycle on a sustained basis, could be positive for the rating.



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### **Downward Factors**

- A decline in the scale of operations or the EBITDA margin, leading to deterioration in the credit metrics and/or the liquidity, on a sustained basis, could be negative for the ratings.

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced Promoters**

KIPL's promoters have more than two decades of experience in the textiles industry. Their extensive experience has helped the company establish strong relationships with its customers as well as suppliers and garner repeat orders at favourable credit terms.

##### **Well Diversified and Established Customer Base**

The Company has an established customer base of agents, distributors and fabric manufacturers. KIPL's customer concentration risk remains low, with its top five customers accounting for 26% of the total sales in FY2020. Its pan India distribution network reduces its geographical concentration risk. The firm is able to garner repeat orders from most of its customers due to its established relationships with them.

##### **Moderate Financial Risk Profile**

Company's revenue decreased from INR527Crore in FY19 to INR504Crore in FY20. In 9MFY21, KIPL recorded revenue of INR280Crore. The decline is primarily on account of lockdown on account of Covid-19. Overall gearing increased from 0.56x in FY19 to 0.95x in FY20, Debt/EBITDA increased from 2.05x in FY19 to 4.23x in FY20 and total debt/GCA increased from 6.82years in FY19 to 13.36 years in FY20, on account of increased debt. Consequently, interest coverage decreased from 2.25x in FY19 to 1.83x in FY20.

Nonetheless, the company's current ratio stood healthy at 1.44x and the operating cycle stood modest at 47 days in FY2020.



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### Key Rating Weaknesses

#### **Vulnerability of Profitability to Fluctuations in Raw Material Prices**

Company's one of the raw materials includes POY, prices of which have demonstrated a high degree of volatility owing to its direct linkages with crude oil prices. Other raw materials include viscose and cotton yarn, prices of which depend on factors such as seasonality, monsoon condition, international demand and supply situation, import-export policy etc. Any adverse fluctuation in the raw material prices affects the sales realisations of the finished products. KIPL's operating profitability also gets impacted in case it is not able to adequately pass on the price increase to its customers due to competitive pricing pressures.

#### **Intense Competition Due to Fragmented Nature of Industry with Presence of Large Number of Players in The Organised and Unorganised Segment**

The polyester textile industry is characterised by high levels of fragmentation and low entry barriers across the value chain. As a result, the firm faces intense competition from unorganised as well as organised players in the industry. KIPL's profitability remains modest, given the commoditised nature of its product and the intense competition in the industry, which limits its pricing flexibility.

**Analytical Approach:** Standalone

#### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

#### **Liquidity – Adequate**

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accruals of over Rs. 7.76Crore in FY21, as against its scheduled negligible debt repayment obligations. The average working capital limits utilization for past 12 months ending in January 2021 is less than 50%, thus providing adequate liquidity cushion. Company has not availed moratorium on working capital limits from its banker.



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### About the Company

Kennigton Industries Private Limited (KIPL), incorporated in 1992, is promoted and managed by Mr Rajeev Tulshyan and his family members. The Company manufactures, imports and trades textile products, mainly viscose and polyester yarn. KIPL is involved in manufacturing by way of leasing three yarn manufacturing units located in Andhra Pradesh and Telangana, having capacity of 54,240 spindles. Further, KIPL has arrangement for manufacturing on job work basis with three other manufacturing facilities with capacity of 72,576 spindles, located in Maharashtra. Imports and trading contribute to around 45%-50% of total revenue, while manufacturing contributes to around 50%-55% of total revenue of the Company. Imports are mainly from Indonesia, on account of quality product availability and favourable trade environment as India has executed Trade agreement with Indonesia wherein the custom duty on imports has reduced to 0%. Company has procured AEO (Authorised Economic Operator) status from Custom department.

### Financials (Standalone)\*:

(In Crore)

For the year ended / As on	31-03-2018	31-03-2019	31-03-2020
	(Audited)	(Audited)	(Audited)
Total Operating Income	596.18	527.21	503.74
EBITDA	15.53	17.87	18.66
PAT	6.08	5.07	5.41
Total Debt	81.82	36.61	78.96
Adjusted Tangible Net-Worth	64.29	65.86	77.23
<b>Ratios</b>			
EBITDA Margin (%)	2.61	3.39	3.70
PAT Margin (%)	1.02	0.96	1.07
Overall Gearing Ratio (x)	1.24	0.56	0.95

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** None

**Any other information:** None

**Rating History for last three years:**



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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.	Long Term Bank Facilities – Cash Credit	Long Term	17.50	IVR BBB- / Stable	--	--	--
2.	Proposed Long Term Bank Facilities – Cash Credit	Long Term	7.50	IVR BBB- / Stable	--	--	--
3.	Long Term /Short Term Bank Facilities – LC/Buyers Credit	Long Term/ Short Term	97.50	IVR BBB- / Stable / IVR A3			
4.	Proposed Long Term /Short Term Bank Facilities – LC/Buyers Credit	Long Term/ Short Term	22.50	IVR BBB- / Stable / IVR A3			

**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](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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### Annexure 1: Details of Facilities

Name of Facility	Size of Facility (Rs. Crore)	Maturity Date	Rating Assigned/ Outlook
Long Term Facility – Fund Based – Cash Credit	17.50	N/A	IVR BBB- / Stable
Proposed Long Term Facility - Fund Based – Cash Credit	7.50	N/A	IVR BBB- / Stable
Long/Short Term Facility – Fund Based/Non-Fund Based – LC/Buyers Credit	97.50	N/A	IVR BBB- / Stable / IVR A3
Proposed Long/Short Term Facility – Fund Based/Non-Fund Based – LC/Buyers Credit	22.50	N/A	IVR BBB- / Stable / IVR A3