



## Press Release

### Kushal Polysacks Pvt Ltd

**August 30, 2022**

#### **Ratings**

Sl. No.	Instrument/Facility	Amount (INR Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
1.	Long Term Bank Facility – Fund Based – Cash Credit	57.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Re-affirmed	Simple
2.	Short Term Bank Facility – Non Fund Based – Bank Guarantee	15.00	IVR A4+ (IVR A Four Plus)	Re-affirmed	Simple
	<b>Total</b>	<b>72.00</b>			

#### ***Details of Facilities are in Annexure 1***

#### ***Detailed Rationale***

The aforesaid rating re-affirmation to the bank facilities of the entity derives comfort from the long track record of operations under experienced promoters, association with reputed organisations, advantage of group support, high margin dredging works and moderate order book giving visibility to revenue in the medium term along with satisfactory overall profitability. However, weak financial risk profile marked by small scale of operation, leveraged capital structure with moderate debt coverage indicators, high dependency on Indian Oil Corporation, presence in highly fragmented and competitive industry, regional concentration risk, high exposure to group companies, and high working capital intensity are the rating constraints.

#### ***Key Rating Sensitivities***

#### **Upward Factors**

- Significant growth in scale of operations with improvement in profitability on a sustained basis and consequent improvement in liquidity
- Improvement in capital structure
- Improvement in operating cycle



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### **Downward Factors**

- Moderation in scale of operations and/or profitability impacting the liquidity profile
- Further moderation in the capital structure with deterioration in overall gearing to more than 5x

### ***Key Rating Drivers with detailed description***

#### **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 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 similar industries.

#### **Association with reputed organisations**

Since 2011, the company started operating as a 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 as the Star DCA of IOCL in India. That apart, KPPL undertakes canal and small river dredging projects for 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 a 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 a diversified business profile, the company can enjoy group support in times of stress.



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### **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 work going forward in view of good opportunities in this segment. Currently, it has order in hand amounting to Rs.9.28 crore as on May 31, 2022, for execution of dredging works. The same is ~1x of FY22 provisional turnover of the Company. The orders are expected to be completed within next one-two years, indicating a satisfactory near to medium term revenue visibility. The Company expects that the growth and profitability of the Company will be driven by its ability to obtain and execute more orders in the dredging segment going forward. According to the Management, the Company has a high probability of getting another dredging order amounting to Rs 19 crore within 1-2 months. Bidding will open for another dredging order of Rs 10-15 crore in 5/6 months' time.

### **Satisfactory profitability**

The Company has satisfactory profit margins - EDITDA and PAT margins were 48.50% and 10.41% respectively in FY21, EBITDA and PAT margins in FY22(Provisional) are 52.45% and 12.39% respectively. Margins around this range are expected to be maintained going forward given the contribution from the high margin dredging segment.

### **Key Rating Weaknesses**

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

KPPL is a small player with a total operating income of Rs. 9.71 crore and 9.39 crore in FY21 and FY22 respectively. The small scale restricts the financial flexibility of the Company in times of stress given its leveraged capital structure. Going forward, the Company expects that the total operating income of the Company will continue to increase at a decent pace given the increasing contribution from the dredging segment. The capital structure is leveraged marked by a high overall gearing of 3.61x as at March 31, 2022, due to its high utilisation of bank borrowing. The interest coverage ratio is also low at 1.47x in FY22.



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### **Fortune dependent on the principal (IOCL) and presence in highly fragmented & competitive industry**

As KPPL works as DCA of IOCL, the business of the Company is largely dependent on the demand of IOCL polymer products. That apart, as the dredging works are tender driven, business certainty of this segment is dependent on the ability to successfully bid for the tenders. The dredging sector is highly fragmented with presence of many players having varied stature & capabilities.

### **Regional concentration risk**

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

### **High exposure to group companies**

The Company has a high exposure in its group companies in the form of corporate guarantees extended to them. However, the group companies are profitable, which imparts comfort.

### **High working capital intensity**

KPPL, being a Del Credere Agent, is exposed to the inherent counterparty credit risk as the receivables of IOCL is transferred to the Company, which results in high working capital requirement. The Company has a long operating cycle. It was 2976 days in FY20, 2151 days in FY21 and 2550 days in FY22. The main contributor to the long operating cycle was high debtor days, which was 3340 days in FY20, 2062 days in FY21, and 2430 days in FY22. The high working capital intensive nature of operations led to high average utilization of fund-based limit to around ~98% for the 12 months ended Feb 2022.

### **Analytical Approach: Standalone**

#### **Applicable Criteria**

[Rating Methodology for Service Industry](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on assigning rating Outlook](#)



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### Liquidity - Adequate

The current ratio of KPPL in FY22 was 1.42, which is comfortable. Further, this ratio is remaining at around 1.40 mark during the projected period. Apart from GECL loans there are no long-term debts and the Company has no significant capex plans going forward and thus recourse to long term debts won't be necessary. However, the liquidity profile is affected due to KPPL's working capital intensive nature of operations marked by an elongated operating cycle. Further, the average working capital borrowing utilisation of the company remained high at ~98% during March 2021 and February 2022.

### About the company

Kushal Polysacks Private Limited (KPPL) is promoted by Mr. Naresh Kumar Agarwal based out of Kolkata. The Company commissioned its business in October 1996 and was in the manufacturing of Polypropylene (PP) and High-density polyethylene (HDPE) products. Later, since 2011, the Company started operating as a Del Credere Agent (DCA) of Indian Oil Corporation Limited (IOCL) for PP granules. KPPL has been awarded as 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 a 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)\*:

(INR crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Provisional)
Total Operating Income	9.71	9.39
EBITDA	4.71	4.92
PAT	1.03	1.19
Total Debt	54.91	76.40
Tangible Net-worth	20.08	21.53
<b>Ratios</b>		
EBITDA Margin (%)	48.50	52.45
PAT Margin (%)	10.41	12.39
Overall Gearing Ratio (x)	2.74	3.55



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\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Acuity has maintained the rating of the company as Issuer Not Cooperating vide its PR dated 17th January 2022.

**Any other information:** None

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (PR dated 23.07.21)	Date(s) & Rating(s) assigned in 2020-21 (PR dated 08.08.20)	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	57.00	IVR BB+/ Stable	IVR BB+/ Stable	IVR BB+/ Stable	--
2.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	15.00	IVR A4+	IVR A4+	IVR A4+	--

### Names and Contact Details of the Rating Analysts:

Name: Shantanu Basu

Tel: (022) 46022266

Email: [shantanu.basu@infomerics.com](mailto:shantanu.basu@infomerics.com)

Name: Prakash Kabra

Tel: (022) 62396023

Email: [prakash.kabra@infomerics.com](mailto:prakash.kabra@infomerics.com)

### About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.





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Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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### Annexure 1: Details of Facilities

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

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-KushalPolysacks-aug22.pdf>

### Annexure 3: List of companies considered for consolidated analysis: Not Applicable

### Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable



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**Note on complexity levels of the rated instruments:** 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).