

KPT Industries Limited

July 07th 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	18.04 (Enhanced from 13.90)	CARE BBB-; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	18.00	CARE BBB-; Positive / CARE A3	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	23.23 (Enhanced from 18.23)	CARE A3	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings to the bank facilities of KPT industries Limited (KPT, formerly known as Kulkarni Power Tools Limited) is on the back of healthy growth in its scale of operations in FY23 (Audited; FY refers to the period April 1 to March 31) with pickup in demand from power tool industries along with improvement in its operating profitability. CARE also takes note of expected improvement in diversification, with improvement in E-Cart sales going ahead. The ratings continue to derive strength from experienced promoters and the long operational track record of KPTIL over four decades in the electric power tools industry and established distribution channel.

The above rating strengths are, however, tempered by the modest scale of operations and modest networth base, working capital intensive nature of operations, high dependence on single segment, susceptibility of profitability to volatility of raw material prices, fragmented & intense competition in the electric power tools industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- ✓ Ability of the company to scale up its operations above Rs 200 crores along with improvement in PBILDT margin on a sustained basis.
- ✓ Improved diversification with substantial improvement in sales from Ekart.
- ✓ Improvement in overall gearing & total debt to GCA below 0.70x & 2.5x respectively on a sustained basis.

Negative factors:

- Deterioration in overall gearing more than 1.40x on sustained basis.
- Decline in profitability with PBILDT margin below 8%
- Operating cycle deteriorating to more than 160 days on sustained basis.

Analytical approach: Standalone

Outlook: Positive

The positive outlook reflects CARE's expectation of continued improvement in operational performance, driven by healthy demand prospects in the Ecart Segment. Furthermore, the debt protection metrics are expected to improve. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged revenue and profits and if the debt protection metrics and capital structure weaken from the current levels.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience and long-standing track record of the promoters in Power tool industry

KPTIL is currently under the leadership of Mr. P.A Kulkarni, serving as the Executive Chairman, and Mr. Dilip Kulkarni, who holds the position of Managing Director. Both individuals have extensive experience of over four decades in the manufacturing of electric power tools. They oversee the overall management of the company. Supported by a seasoned team, the promoters hold key positions in different divisions within the organization. Their significant tenure in the industry has equipped them with ample knowledge and expertise in the field.

Improved yet modest scale of operations along with healthy profitability margins.

During FY23, KPTIL witnessed a 29% year-on-year improvement in its Total Operating Income (TOI), amounting to Rs. 149.76 crore. This growth was primarily driven by robust demand from the Power Tool division and the Ecart division. Furthermore, KPTIL's operating profit (PBILDT) margin improved due to a better product mix and increased volumes in its power tool segment. The PBILDT margin rose by 93 basis points to 12.48% in FY23. Additionally, the company achieved a Profit After Tax (PAT) margin of 5.62% in FY23, compared to 4.30% in FY22, aligning with the improvement in the PBILDT margin. Overall, the

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

performance in FY23 surpassed the previous year's results. The improvement in profitability also led to enhanced return ratios, with a return on capital employed (ROCE) of approximately 22.54% in FY23, compared to approximately 14.74% in FY22.

Improved capital structure and debt protection metrics

Over the years, with accretion of profits to its net-worth coupled with repayment long-term debt and moderately utilized working capital limits, the capital structure of the company remained comfortable. As on March 31, 2023, total debt stood at Rs. 29.95 crores (PY.33.72 crore). The overall gearing was 0.68x as on March 31, 2023 (as compared to 0.95x in FY22). Further, the debt to equity remained comfortable at 0.27x (PY 0.42x). With the comfortable capital structure and improved profitability, the debt coverage indicators also improved yet remain modest in FY23. The total debt/GCA, which stood at 2.61x as at the end of FY23 (as compared to 4.76x in FY22 and 6.18x in FY21) and the PBILDT interest coverage ratio also was at 4.41x in FY23.

Wide geographical diversification and an extensive dealer network

The company maintains a diversified customer base, with the top 10 customers accounting for approximately 14% of total sales. The distribution of KPTIL's power tool products is facilitated through a network of around 456 dealers operating from a central distribution depot. Additionally, the company sources raw materials from both domestic (about 66%) and overseas markets. This diversified customer base and supply chain reduce counterparty risk to a certain extent.

Key Rating Weaknesses

Product Concentration Risk albeit improved in FY23.

KPTIL operates under three primary business segments - Portable Power Tools, Blowers, E-Cart segment. The major income is derived from portable power tools segment followed by Blowers division and E-Cart segment. In FY23, these segments contributed 67%, 19%, and 14% respectively to the company's total revenue. On the back of inflow of orders from existing customers as well as new customers in the E-Cart segment, the share of revenue from E-Cart is expected to improve, thus adding to the diversification going ahead.

The company's heavy reliance on the power tool segment poses a concentration risk. Any adverse changes in the demand for power tools or disruptions in the industry can significantly impact the company's financial performance.

Working capital intensive operations

KPTIL operates in the business which depends heavily on working capital borrowings with funds mainly blocked in an inventory and receivables. The company generally stocks inventory of 100 to 110 days and finished goods for 55 to 65 days led by wide variety of products mainly under power tools division, the blower's division is mostly made to order. Further KPTIL provides credit period 75 to 80 days to customers (dealer) for power tools division and 90 to 110 days to customer for blower division, reflecting working capital intensive nature of operations. The operating cycle of KPTIL has improved to 141 days in FY23 as compared with 157 days in FY22. Efficient management of working capital cycle and improvement in liquidity position will remain a key rating sensitivity.

Susceptibility of profitability to volatility in raw material prices

The primary raw material of KPTIL comprises of ferrous castings, steel, copper wire, non-ferrous castings, the prices of which are volatile in nature. The raw material cost is the major cost for the company and accounts for approximately 67% of total cost of sales. The ability of the company to pass on the increased raw material cost to its customers is limited owing to its presence in highly competitive industry. Accordingly, profitability margin of the company remains susceptible to raw material prices.

Intense competition from organized and unorganized players

KPTIL manufactures products and operates in a Power tool industry which comprises of several players in the unorganized sector resulting in high degree of fragmentation. The industry is characterized by low entry barriers and low level of product differentiation due to minimal technological inputs and availability of standardized machinery for production. The competition leads to pricing pressures, which is likely to put pressure on the operating margin of the players operating in the industry. However, with distribution channel of 456 dealers and addition of new product line, the same is mitigated to some extent.

Liquidity Analysis: Adequate

Liquidity of KPT is characterized by sufficient cushion in accruals vis-à-vis repayment obligations, unutilized bank limits and free cash balance. GCA is expected to be in the range of Rs.12-14 Crore against the repayment obligations in FY24 to the tune of Rs.3.52 crore. KPT had a cash and cash equivalent to the tune of Rs.0.27 crore as on March 31, 2023, and has cash balance of around Rs.1.10 crore as on June 20, 2023. Furthermore, KPT also derives comfort from the unutilized lines of cash credit facilities of around Rs.4.94 crore (sanctioned limit: Rs.30.25 crore). The average CC utilization for the 12 months ended May 30, 2023, stood at around 84%. Current ratio of the company stood at 1.57x as on March 31, 2023 (PY. 1.55x).

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

KPTIL was incorporated in 1976 as Kulkarni Black & Decker Limited, a joint venture (JV) between the Kulkarni family led by Mr. Prakash Kulkarni and Black & Decker, USA. During 1993, the entire stake of Black & Decker, USA, was acquired by the Kulkarni family and the name of the company was subsequently changed to Kulkarni Power Tools Limited. KPTIL operates in four business segments - portable power tools, blowers, windmills, and E-Cart.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 UA
Total operating income	116.70	150.20	NA
PBILDT	13.68	19.13	NA
PAT	5.01	8.42	NA
Overall gearing (times)	0.94	0.68	NA
Interest coverage (times)	3.63	4.41	NA

A: Audited.NA: Not Available Note: the above results are latest financial results available.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Lender details: Annexure-5

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.77	CARE BBB-; Positive
Fund-based - LT-Term Loan		-	-	March 2023	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	March 2023	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	March 2028	7.27	CARE BBB-; Positive
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	18.00	CARE BBB-; Positive / CARE A3
Fund-based - ST-Packing Credit in Indian rupee		-	-	-	1.48	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	21.75	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	7.27	CARE BBB-; Positive	-	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)
2	Fund-based - LT-Cash Credit	LT	10.77	CARE BBB-; Positive	-	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)
3	Fund-based - ST-Packing Credit in Indian rupee	ST	1.48	CARE A3	-	1)CARE A3 (21-Jul-22)	1)CARE A4+ (25-Aug-21)	1)CARE A4 (05-Nov-20)
4	Non-fund-based - ST-BG/LC	ST	21.75	CARE A3	-	1)CARE A3 (21-Jul-22)	1)CARE A4+ (25-Aug-21)	1)CARE A4 (05-Nov-20)
5	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)
6	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (21-Jul-22)	1)CARE BB+; Stable (25-Aug-21)	1)CARE BB; Stable (05-Nov-20)
7	Fund-based - LT/ST-CC/Packing Credit	LT/ST*	18.00	CARE BBB-; Positive / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (21-Jul-22)	1)CARE BB+; Stable / CARE A4+ (25-Aug-21)	1)CARE BB; Stable / CARE A4 (05-Nov-20)

*Long term/Short term.

Annexure 3: Detailed explanation of covenants of the rated facilities:

Name of the Instrument	Detailed explanation
A. Financial covenants	
NA	NA
B. Non-financial covenants	
1. Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 10 th of succeeding quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of CMA/Renewal data for the period beyond 3 months	Will attract penal interest as applicable, at rates circulated from time to time.

Name of the Instrument	Detailed explanation
3. Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.
4. Account remains overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	Will attract penal interest as applicable, at rates circulated from time to time.

Annexure 4: Complexity level of various instruments rated for this Company.

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/Packing Credit	Simple
4	Fund-based - ST-Packing Credit in Indian rupee	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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