

## Rating Rationale

June 01, 2022 | Mumbai

### Kokuyo Camlin Limited Ratings Reaffirmed

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.167.65 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1 (Reaffirmed)</b>

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Kokuyo Camlin Limited (Camlin) at 'CRISIL A/Stable/CRISIL A1'.

Company witnessed a 26% year on year improvement in revenues to Rs. 508 crore during fiscal 2022. After sharp impact during Q1 of fiscal 2022 (Q4 & Q1 are usually strongest quarters) owing to second wave of the pandemic, company's performance gradually improved from Q2 onwards and almost reached pre-pandemic levels by Q4FY22 (Revenue: Rs 164 crore). Improvement was broad based and witnessed across major product segments like scholastic products, markers and notebooks which contributed over 50% of overall revenue. Revenue expected to be maintained at around Rs 650-700 crore over the medium term. Operating margins for the full year was constrained at 3.2% primarily owing to operating losses of Rs. 9 crore during Q1 FY22 and overall inflationary trend witnessed in raw material prices esp. during Q4. Over the medium term, operating margins are expected to be maintained at around 4.5-6% driven by cost rationalization measures undertaken and higher operating leverage.

While business would be susceptible to intense competition, the financial risk profile should remain adequate with moderate capex of Rs. 10-12 crore expected to be funded from steady internal accruals and prudent working capital management. Debt protection metrics to remain stable with interest coverage of 5-7 times and NCATD of 0.3-0.5 times over the medium term.

The ratings continue to reflect the significant benefits derived from business and financial linkages with the parent, Kokuyo & Co Ltd, Japan (Kokuyo). The ratings also factor in a strong brand in the stationery segment and an adequate financial risk profile. These strengths are partially offset by susceptibility to intense competition and to volatility in input prices, leading to pressure on profitability.

#### Analytical Approach

The ratings of Camlin factor in support expected from its parent Kokuyo. CRISIL Ratings believes that Camlin will, in case of exigencies, receive distress support from its parent for timely repayment of debt obligations, considering parent holding of 74.44% and operational, technical and financial support.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### • Strong operational and financial support from the parent

Kokuyo is a leading company in office stationery products in Japan, particularly in notebooks, office supplies and office furniture. Product offerings of the Camlin have widened as a result of technical collaboration for new product development with the parent. The group can leverage on Kokuyo's market leadership in notebooks and stationery in Japan for expansion of product portfolio. Furthermore, the parent provides financial flexibility as was demonstrated by the rights issue of over Rs 1 billion in fiscal 2014 to fund planned capital expenditure (capex).

##### • Strong brand in the stationery segment

The group has established strong brands in its business, such as Camel Camlin and Exam. It also has a diversified portfolio of over 2000 products and a pan-India presence. The group has a wide variety of stationery products such as pencils, geometry boxes, and scholastic colours. The strong distribution network with more than 300,000 retail outlets and over 2500 stock-keeping units aids sales growth. Camlin continues to be the market leader in geometry boxes, artistic and color products.

##### • Adequate financial risk profile

The networth estimated to be healthy at Rs 236 crore, as on March 31, 2022. The gearing is likely to be sustained at ~0.3 times in the absence of any large, debt-funded capex over the medium term. Sustenance of profitability and return on capital employed (RoCE) will remain key rating monitorables.

##### Weaknesses:

##### • Susceptibility to intense competition and volatility in raw material prices

Intense competition from both organized and unorganized players leads to pricing pressure keeping the margins modest at around 3-6%. Operating margin expected to be maintained at 4.5-6% over the medium term through cost rationalization measures and economies of scale. The margin is also vulnerable to volatility in raw material prices, with paper, plastics and pigments being the major raw material which are linked to crude prices.

##### • Working capital intensive operations

Camlin have high gross current assets at 150-190 days as on March 31, 2022 driven by sizeable inventory requirements. Inventory and receivables stood at 94 and 43 days respectively as on March 31, 2022. Working capital levels to be managed efficiently through IT initiatives for better demand forecasting and efficient inventory management.

**Liquidity: Adequate**

Liquidity is likely to remain adequate over the medium term. Cash accrual is projected at Rs 25-30 crore each in fiscals 2023 - 2024 which is expected to be sufficient for annual repayment obligations of around Rs 6-8 crore and annual capex of Rs 10-12 crore. Any additional working capital requirement will be additionally supported by fund based bank lines of Rs 173 crore minimally utilized at an average of 26% over the past 12 months. Liquidity also supported by expectation of support from the parent Kokuyo to provide ongoing and need based support, in case of exigencies.

**Outlook: Stable**

The business risk profile continues to be supported by its strong brand and entrenched distribution network with demand returning to pre-pandemic levels. Camlin is also well placed to take advantage of the long term structural tailwinds in the industry given its healthy market position. The financial risk profile is expected to benefit by healthy capital structure due to steady accretion to reserve and steady reduction in debt levels.

**Rating Sensitivity factors****Upward factors**

- Higher than expected revenue growth driven by improvement in business conditions and operating margins improving to 7-8%.
- Increased efficiencies in working capital management resulting in reduced reliance on external debt to fund working capital gap.

**Downward factors**

- Revenue de-growth leading to operating margin falling to below 3% impacting cash generation.
- Large debt funded capex or larger than expected working capital impacting debt protection metrics adversely.

**About the Company**

Camlin was set up as Dandekar & Company in 1931 by Mr Digambar Dandekar and Mr Govind Dandekar and was reconstituted as a public limited company in 1946 and was listed in 1988. The Camlin group manufactures a variety of stationery products at its plants in Tarapur and Patalganga, in Maharashtra, and in Jammu. After the rights issue in fiscal 2014, Kokuyo's stake went up to 70.66% from 50.74%. Currently, Kokuyo holds 74.44% stake.

**Key Financial Indicators**

As on/for the period ended March 31,		2022	2021
Revenue	Rs. crore	508	403
Profit after tax	Rs. crore	-5	-15
PAT margin	%	-0.9	-3.6
Adjusted debt/adjusted net worth	Times	0.29	0.32
Interest coverage	Times	4.05	0.96

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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**Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity level	Rating Assigned with Outlook
NA	Working Capital Demand Loan	NA	NA	NA	105.65	NA	CRISIL A/Stable
NA	Overdraft facility	NA	NA	NA	27.00	NA	CRISIL A1
NA	Vendor Bill Discounting Limits	NA	NA	Aug-22	35	NA	CRISIL A1

**Annexure - Rating History for last 3 Years**

Immature Rating History for Last 5 Years												
	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	167.65	CRISIL A1 / CRISIL A/Stable		--	02-06-21	CRISIL A1 / CRISIL A/Stable	12-03-20	CRISIL A1 / CRISIL A/Stable	08-05-19	CRISIL A1 / CRISIL A/Stable	CRISIL A1 / CRISIL A/Stable
			--		--		--		--	21-02-19	CRISIL A1 / CRISIL A/Stable	--
Commercial Paper	ST		--		--		--		--	08-05-19	Withdrawn	CRISIL A1
			--		--		--		--	21-02-19	CRISIL A1	--

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Overdraft Facility	11	Mizuho Bank Limited	CRISIL A1
Overdraft Facility	16	MUFG Bank Limited	CRISIL A1
Vendor Bill Discounting Limits	10	Mizuho Bank Limited	CRISIL A1
Vendor Bill Discounting Limits	25	Sumitomo Mitsui Banking Corporation	CRISIL A1
Working Capital Demand Loan	75.65	Mizuho Bank Limited	CRISIL A/Stable
Working Capital Demand Loan	15	MUFG Bank Limited	CRISIL A/Stable
Working Capital Demand Loan	15	Sumitomo Mitsui Banking Corporation	CRISIL A/Stable

This Annexure has been updated on 29-Mar-2023 in line with the lender-wise facility details as on 24-Mar-2023 received from the rated entity.

**Criteria Details**

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Criteria for rating instruments backed by guarantees</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">Mapping global scale ratings onto CRISIL scale</a>

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