

February 28, 2023

Krishna Antioxidants Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based cash credit	40.00	45.00	[ICRA]A-(Stable); reaffirmed/assigned
Short-term fund-based working capital	16.00	45.00	[ICRA]A2+; reaffirmed/assigned
Short-term non-fund based	42.00	47.00	[ICRA]A2+; reaffirmed/assigned
Short-term interchangeable limits	(14.00)	(85.00)	[ICRA]A2+; reaffirmed/assigned
Long-term interchangeable limits	(33.50)	(45.00)	[ICRA]A-(Stable); reaffirmed/assigned
Unallocated limits	57.00	78.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed/assigned
Total	155.00	215.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the healthy growth in Krishna Antioxidants Private Limited's (KAPL) turnover in the current fiscal, driven by elevated realisations, even as the volumes remained stagnant and range-bound. While the operating margins have moderated, the OPBDITA/tonne has remained healthy owing to the elevated realisations. The OPBDITA/tonne is likely to remain healthy, going forward, despite a decline from the FY2022 levels. Moreover, though the company has bought back shares worth Rs. 55 crore over the last two years, the overall financial profile remains healthy, marked by comfortable capital structure and debt coverage indicators. Further, the ratings take into account KAPL's adequate liquidity position with no repayment obligations for external debt and presence of free cash balances of Rs. 23.2 crore as of December 2022.

The ratings continue to consider the vast experience of KAPL's promoters with an established track record in manufacturing speciality chemicals and the company's reputed customer base comprising players from the oil and natural gas industry.

The ratings, however, remain constrained by KAPL's exposure to demand risks in the key user industry- oil exploration and refining - which depends on crude oil prices and the general economic cycle. The ratings also take into account the vulnerability of the company's profitability to the volatility in the prices of raw materials, some of which are crude oil derivatives. Further, the ratings take note of the fluctuations in foreign exchange rates due to the sizeable export sales, though the risk is partly mitigated by the natural hedge from import purchases and the partial hedging undertaken by the company. In addition, intense competition from domestic and global chemical manufacturers exerts pressure on the company's profit margin.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that KAPL will be able to maintain its credit profile over the medium term, driven by steady cash flows and comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in manufacturing speciality chemicals –KAPL, incorporated in May 1990, is an industrial chemicals manufacturer, that supplies speciality chemicals, mainly LPA and oilfield speciality chemicals (OFSC). The company is promoted by two brothers, Mr. Krishna Gupta and Mr. Anil Gupta, who have three decades of experience in the speciality chemical industry.

Comfortable debt protection metrics and healthy cash flow – KAPL has demonstrated a healthy growth in turnover in the current fiscal, driven by growth in realisations. While there was a share buyback and the operating margins contracted in 9M FY2022 due to the increase in raw materials prices, the cash accruals are expected to remain comfortable. Adequate accruals and the increased debt level have resulted in a comfortable capital structure, evident from a gearing of 0.73 times as on December 31, 2022. ICRA also notes the reduction in the interest coverage ratio due to increase in debt (OPBDITA/interest expense) to 6.10 times in 9M FY2023 from 10.29 times in FY2022. The company's ability to sustain its margins, while registering a steady top-line growth, will remain critical.

Reputed client base - KAPL's clientele includes companies involved in oil and natural gas drilling and refining activities. Reputed multinationals such as Oil and Natural Gas Corporation Limited, Numaligarh Refinery Limited, Indian Oil Corporation and Reliance Industries Limited are its clients.

Credit challenges

Volumes growth muted; total volumes remain range-bound - The volume growth remained muted in FY2022 as well as in 9M FY2023. However, the revenues have grown with increased sales realisation.

Demand risk in key user industry, oil exploration - KAPL derives around 50% of its revenues from the oil exploration industry. Such high reliance on the oil exploration segment exposes the company's operations to demand risks in the end-user industry, which in turn depends on the general economic cycle and crude oil prices. ICRA notes that the company's ability to sustain its performance amid increasing crude oil prices will be crucial from a credit perspective.

Volatility in raw material prices and fluctuation in foreign exchange rates - The key raw materials (chemicals) required by KAPL are derivatives of crude oil that are prone to price fluctuations, in line with the price movements of crude oil. Most of the contracts with customers are fixed price in nature, which exposes KAPL's profitability to the fluctuations in raw material prices. Further, its profitability remains exposed to foreign exchange risks as ~40-50% of its sales are through exports. The forex risk is, however, mitigated to some extent by the natural hedge from imports, which account for ~40-45% of the total purchases and the forward contracts booked by the company.

Liquidity position: Adequate

KAPL's liquidity has remained adequate. As on December 31, 2022, the company's free cash balance was Rs. 23.2 crore. The capex requirements remain moderate, and the company had average undrawn limits of more than ~Rs. 25 crore during January 2022 to November 2022. Thus, despite the share buyback of around Rs. 30 crore in the current fiscal, the overall liquidity remains comfortable.

Rating sensitivities

Positive factors – ICRA could upgrade KAPL's ratings if the company is able to scale up its operations while maintaining healthy profitability and adequate liquidity on a sustainable basis.

Negative factors – The ratings may be downgraded in case of material decline in revenues and profitability on a sustained basis, or if the company undertakes any large debt-funded capex that deteriorates its capitalisation and coverage indicators. Any sizeable fund outflow towards dividends or share buybacks materially impacting the liquidity position can also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

KAPL, incorporated in May 1990, is an industrial chemicals manufacturer, which supplies speciality chemicals, notably liquid phosphite antioxidants (LPA) and oilfield speciality chemicals (OFSC). The company is promoted by two brothers, Mr. Krishna Gupta and Mr. Anil Gupta, who have over three decades of experience in manufacturing LPA. KAPL operates four manufacturing facilities. It commenced operations with a manufacturing unit at Chiplun, Maharashtra. In FY2015, the company purchased a new speciality chemical manufacturing unit at Lote, Maharashtra. Later, in March 2019, it set up its third unit at Chiplun (close to the existing unit) and a fourth unit at Dahej (Gujarat). The company sells its products under the brand name of CRISTOL.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	362.15	543.68
PAT (Rs. crore)	24.4	34.9
OPBDIT/OI (%)	12.1%	10.3%
PAT/OI (%)	6.7%	6.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.7
Total debt/OPBDIT (times)	0.8	1.2
Interest coverage (times)	12.2	10.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					28-Feb-2023	10-Mar-2022	2-Mar-2021	24-Mar-2020
1	Fund-based cash credit	Long- term	45.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
2	Fund-based working capital	Short- term	45.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
3	Non-fund based	Short- term	47.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
4	Interchangeable limits	Long -term	(45.00)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)
5	Interchangeable limits	Short- term	(85.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
6	Unallocated limits	Short- term and Long-term	78.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB(Positive)/ [ICRA]A3+

Long term – Fund based – Cash credit	Simple
Long term – Interchangeable	Very Simple
Short term – Fund based – Working capital limits	Very Simple
Short term – Interchangeable	Simple
Short term – Non-fund based	Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	Fund-based cash credit	NA	NA	NA	45.00	[ICRA]A- (Stable)
-	Fund-based working capital	NA	NA	NA	45.00	[ICRA]A2+
-	Non-fund based	NA	NA	NA	47.00	[ICRA]A2+
-	Interchangeable limits	NA	NA	NA	(45.00)	[ICRA]A- (Stable)
-	Interchangeable limits	NA	NA	NA	(85.00)	[ICRA]A2+
-	Unallocated amount	NA	NA	NA	78.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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