

February 27, 2024

Krishna Antioxidants Private Limited: Ratings reaffirmed; outlook revised to Positive; 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	45.00	45.00	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Long-term fund-based term loans	-	30.00	[ICRA]A- (Positive); reaffirmed & assigned for enhanced amount; outlook revised to Positive from Stable
Short-term fund-based working capital	45.00	45.00	[ICRA]A2+ reaffirmed
Short-term non-fund based	47.00	40.00	[ICRA]A2+ reaffirmed
Short-term interchangeable limits	(85.00)	(90.00)	[ICRA]A2+ reaffirmed and assigned for enhanced amount
Long-term interchangeable limits	(45.00)	(45.00)	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Unallocated limits	78.00	80.00	[ICRA]A- (Positive); reaffirmed & assigned for enhanced amount; outlook revised to Positive from Stable / [ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	215.00	240.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Positive factors in ICRA's expectation of a steady improvement in the earning profile of Krishna Antioxidants Private Limited (KAPL) as the OPBDITA/tonne has been expanding owing to favourable changes in the product mix. The margin expansion, which was witnessed in 9M FY2024, is likely to continue. 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 comfortable liquidity position with no long-term debt repayment obligations and presence of cash and equivalents of ~Rs. 90 crore as of January 2024.

The ratings continue to consider the vast experience of KAPL's promoters with an established track record in manufacturing specialty 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.

ICRA also notes that the company is undertaking a capex programme which might result in debt addition and moderate the debt metrics, though they are likely to remain comfortable with adequate liquidity in terms of cash and cash equivalents.

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 liquid phosphite antioxidants 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's turnover has been muted, though its margins have expanded in the current fiscal. Adequate accruals and a comfortable debt level have resulted in a healthy capital structure, evident from a gearing of 0.75 times as on March 31, 2023. ICRA also notes the reduction in the interest coverage ratio due to the increase in debt (OPBDITA/interest expense) to 6.12 times in FY2023 from 10.29 times in FY2022, although these still remain comfortable.

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 some of its clients.

Credit challenges

Volumes growth muted; total volumes remain range-bound - The volume growth remained muted in FY2023 as well as in 9M FY2024. However, the revenues have grown in FY2023 with increased sales realisation.

Demand risk in key user industry - KAPL derives 55-60% 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 of January 2024, the company had a liquidity of ~Rs. 90 crore. The company has successfully executed capital expenditures and a share buyback programme without resorting to additional bank financing. The company had ~Rs. 45-50 crore of unutilised limits in the last six months.

Rating sensitivities

Positive factors – ICRA could upgrade KAPL's ratings if the company is able to generate steady cash flows while maintaining its credit profile and liquidity position.

Negative factors – The outlook may be revised to Stable or the ratings may be downgraded in case of a 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 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

Krishna Antioxidants Private Limited (KAPL) is an industrial chemicals manufacturer supplying speciality chemicals, notably liquid phosphite antioxidants (LPA) and oilfield speciality chemicals (OFSC). KAPL's customer base includes players from diverse industries such as rubber, paints and plastics, along with major public sector undertakings such as Oil and Natural Gas Corporation Limited (ONGC) and Hindustan Petroleum Corporation Limited (HPCL) and other small-scale service providers involved in the exploration and production of oil and natural gas.

KAPL was incorporated in May 1990 as Krishna Fiscals Private Limited; it was renamed KAPL in August 1996. The company is promoted by brothers - Mr. Krishna Gupta and Mr. Anil Gupta - both of whom have had over three decades' experience in manufacturing LPAs. The company sells its products under the brand name of CRISTOL. At present, KAPL operates four manufacturing facilities. It began operations with a manufacturing unit at Chiplun, Maharashtra. In FY2015, the company purchased a new speciality chemical manufacturing unit at Lote, Maharashtra, close to the existing Chiplun unit. Later, in 2018, it set up its third unit at Chiplun, and the fourth unit came up at Dahej (Gujarat) in 2019.

The Gupta group of companies includes two other small-scale entities - M/s Globe Industries (GI) and Akrur Chemicals Private Limited (ACPL) - which manufacture similar products for KAPL on a job-work basis.

Key financial indicators (audited)

	FY2022	FY2023	9MFY2024*
Operating income	543.86	664.64	466.90
PAT	34.95	28.99	32.19
OPBDIT/OI	10.33%	7.78%	11.16%
PAT/OI	6.43%	4.36%	6.87%
Total outside liabilities/Tangible net worth (times)	1.72	1.67	2.13
Total debt/OPBDIT (times)	1.28	1.95	2.29
Interest coverage (times)	10.29	6.12	7.37

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 27, 2024	Feb 28, 2023	Mar 10, 2022	Mar 02, 2021
1 Fund-based cash credit	Long term	45.00	--	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
2 Fund-based term loans*	Long term	30.00	--	[ICRA]A-(Positive)	-	-	-
3 Fund-based working capital	Short term	45.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4 Non-fund based	Short term	40.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5 Interchangeable limits	Long term	(45.00)	--	[ICRA]A-(Positive)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
6 Interchangeable limits	Short term	(90.00)	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
7 Unallocated limits	Long term and short term	80.00	--	[ICRA]A-(Positive)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+(Stable)/ [ICRA]A2

*- Company has no outstanding term loan as on March 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Cash credit	Simple
Long-term fund-based – Term loan	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based cash credit	NA	NA	NA	45.00	[ICRA]A- (Positive)
-	Fund-based term loans*	NA	NA	NA	30.00	[ICRA]A- (Positive)
-	Fund-based working capital	NA	NA	NA	45.00	[ICRA]A2+
-	Non-fund based	NA	NA	NA	40.00	[ICRA]A2+
-	Interchangeable limits	NA	NA	NA	(45.00)	[ICRA]A- (Positive)
-	Interchangeable limits	NA	NA	NA	(90.00)	[ICRA]A2+
-	Unallocated amount	NA	NA	NA	80.00	[ICRA]A- (Positive)/ [ICRA]A2+

Source: Company *- Company has no outstanding term loan as on March 31, 2023

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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