

## Krifor Industries Private Limited <sup>Revised</sup>

December 20, 2017

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	26.26	26.26	[ICRA]B+(Stable); Upgraded from [ICRA]B
Fund based-Cash Credit	20.00	20.00	[ICRA]B+ (Stable); Upgraded from [ICRA]B
Non-fund based – Import letter of credit and Buyers credit*	(9.20)	(9.20)	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>46.26</b>	<b>46.26</b>	

\*Sublimit of term loan

### Rating action

ICRA has upgraded the long-term rating to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]B (pronounced ICRA B) and has reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) for the Rs. 46.26 crore<sup>1</sup> bank lines of Krifor Industries Private Limited (KIPL or the company)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The ratings upgrade positively factors in the considerable growth in KIPL's operating income backed increase in sales volume and improved sale realisation. This is attributable to the optimum utilisation of installed capacity, given the favourable demand for particleboards in the domestic market due to its eco-friendly and economical nature in comparison to plywood. Furthermore, ramp up in scale of operation has led to better absorption of fixed cost, which has led to improvement profit metrics and subsequent return indicators. ICRA also notes the strong business acumen of the promoters as well as the group support received from its sister concerns to stabilise KIPL's operations.

The ratings, however, continue to remain constrained by KIPL's high working capital intensive nature of operations resulting from high inventory levels holding due to seasonal procurement of raw materials, which has resulted in near to full utilisation of working capital limits. The ratings also remain constrained by the company's highly leveraged capital structure as indicated by high gearing of 8.01 times as of March 31, 2017, although unsecured loans from promoters form a significant part of total debt. ICRA also notes the vulnerability of revenues and profitability to cyclicalities inherent in the real estate industry, which is the main consuming sector. Further, the ratings note the stiff competition as well as availability of alternative products like plywood, which restricts the margin flexibility of the company.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA believes Krifor industries Private Limited will continue to benefit from the eco-friendly and economical nature of particle board, which will enable the company to operate at an optimum level of capacity utilisation. The outlook may be revised to Positive if substantial growth in revenue and profitability, improvement in capital structure and better working capital management, strengthens the financial risk profile. Conversely, the outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure leading to further deterioration in capital structure of the company, or stretch in the working capital cycle, weakens liquidity.

## Key rating drivers

### Credit strengths

**Growth in operations along with improvement in profit metrics** – Commercial operations of the company commenced in March 2014. Within a limited period, KIPL has witness a considerable growth in revenues backed by gradual increase in utilisation of installed capacity. Capacity utilisation stands at ~68% for H1 FY2018. Steady ramp up in scale of operation has led to better absorption of fixed cost, which has led to improvement profit metrics from net losses till FY2016 to positive net profit during FY2017.

**Financial support through group concerns** - The company has nine group concerns operating in and around Surat, Gujarat, primarily engaged in the textile industry. The company draws financial support from its Group companies. The strong business acumen of the promoters across the industries has guided the growth of KIPL and stabilised its operations within a limited period.

**Favourable demand prospects for particle board industry** - Particleboard finds its application in the production of boxes for the packaging industry, household furniture, office furniture as well as interior decoration. The demand outlook for particleboards is favourable due to the eco-friendly nature of the product and a strong real estate market in Surat and its nearby areas. Furthermore, particleboards are also economical as compared to its substitutes, which give it an edge over other plywood manufacturers

### Credit weaknesses

**Modest scale of operations and thin profitably** - Though the operating income of the company witnessed a considerable growth of ~36% in FY2017, its overall operations remain modest as represented by OI of ~Rs. 73.16 crore during FY2017. Profitability, as represented by NPM of the company, turned positive and stood at ~2.09% during FY2017 for the first time since commencement of operations, backed by gradual increase in capacity utilisation and better absorption of fixed cost. Nevertheless, return indicator as represented by ROCE remained low at ~8.29% during FY2017 due to lower profitability. Moreover, going ahead, the ability to maintain its profitability remains critical, given the limited operational track record of the company.

**Leveraged capital structure with modest coverage ratios** – KIPL's capital structure continued to remain highly leveraged as represented by gearing level of ~8.01 times as on March 31, 2017. However, unsecured loans of ~Rs. 30.35 crore from promoters against a total debt of Rs. 72.95 crore as on March 31, 2017 provides comfort to the capital structure of the company. Thin profitability, coupled with higher interest cost and annual term loan repayment of ~Rs. 4.93 crore, has led to modest coverage indicators as represented by OPBDITA/I&F charge and DSCR of ~2.48 times and ~1.27 times, respectively.

**High working capital intensity resulting from high inventory levels impact liquidity** – Due to seasonal procurement of bagasse, the key raw material for manufacturing particleboards, the company needs to maintain a high inventory level. Due to the same, the working capital intensity within the business continues to remain high as represented by NWC/OI of ~56% during FY2017 and almost full utilisation of working capital limits. Nevertheless, due to recent procurement of a wood working machine, with which the company can manufacture particleboards from residual wood sticks and wood waste products, its dependency on bagasse is expected to reduce in the coming years.

**Highly competitive industry with large number of organised and unorganised players, coupled with availability of substitutes in the market** - KIPL faces stiff competition from major players in the business as well as from the unorganised and local plywood manufacturers. This may limit the manufacturer's ability to pass on the raw material increase to its customers, constraining KIPL's profitability.

**Susceptibility to cyclicalities in the real estate industry** - Utilisation of particleboards is heavily dependent on the demand prospects of the real estate industry, which is the key consuming sector. Due to the cyclicalities inherent in the real estate industry, the revenues, profitability and cash flows remains vulnerable to a certain extent.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Krifor Industries Private Limited (KIPL) was incorporated in April 2012 for manufacturing particleboards from sugarcane bagasse. Manufacturing operations were initiated from March 2014. The company has an installed manufacturing capacity of ~14.85 lakh units per annum (4,070 units per day) for boards of an approximate size of 8ft. x 4ft. and ~17mm thickness. The manufacturing unit of the company is located near Surat, Gujarat. Mr. Sanjeev Dalmia, Mr. Mandeep Bajaj, Mr. Chetandas Khatri and Mr. Jugal Bhutra are the key management personnel of the company, who manage its overall operations.

KIPL has nine other operational group companies—Gannayak Agency Private Limited, Ridhi Sidhi Organisers Private Limited, Prayagraj Dyeing & Printing Mills Private Limited, Armaan Industries Private Limited, Aastha Fashions Private Limited, K Fins Pumps Private Limited, Jai Mata Di Fashions Private Limited, Jai Mata Di Dyeing & Printing Mills Private Limited and Jai Mata Di Art & Creations Private Limited. Out of these nine firms, seven firms are associated with the textile industry.

In FY2017, the company reported a net profit of Rs. 1.53 crore on an operating income of Rs. 73.16 crore, as compared to a net loss of Rs. 2.62 crore on an operating income of Rs. 53.91 crore in the previous year.

### Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	53.91	73.16
PAT (Rs. crore)	-2.62	1.53
OPBDIT/ OI (%)	17.50%	17.77%
RoCE (%)	3.84%	8.29%
Total Debt/ TNW (times)	9.77	8.01
Total Debt/ OPBDIT (times)	7.87	5.61
Interest coverage (times)	1.60	2.48
NWC/ OI (%)	67.75%	55.54%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2017	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 December 2015	Date & Rating in FY2015 March 2015
1 Term Loan	Long Term	26.26	18.46	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	[ICRA]B
2 Cash Credit	Long Term	20.00		[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B	[ICRA]B
3 Import Letter of Credit & Buyers credit*	Short Term	(9.20)		[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

\*Sublimit of term loan

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	April 2013		August 2021	11.14	[ICRA]B+ (Stable)
NA	Term Loan 2	April 2013		August 2021	9.03	[ICRA]B+ (Stable)
NA	Term Loan 3	April 2013		June 2021	3.37	[ICRA]B+ (Stable)
NA	Term Loan 4	April 2013		June 2021	2.72	[ICRA]B+ (Stable)
NA	Cash Credit				20.00	[ICRA]B+ (Stable)
NA	Import Letter of Credit & Buyers credit*				(9.20)	[ICRA]A4

\* Sublimit of term loans

Source: Krifor Industries Private Limited

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