

Krishna Antioxidants Private Limited

March 06, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	23.00	20.00	[ICRA]BBB(Stable); Reaffirmed
Long-term Term Loans	42.46	48.84	[ICRA]BBB(Stable); Reaffirmed
Short-term Fund-based Working Capital	40.00	26.00	[ICRA]A3+; Reaffirmed
Short-term Non-fund Based	61.00	56.00	[ICRA]A3+; Reaffirmed
Total	166.46	150.84	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to take into account the vast experience of Krishna Antioxidants Private Limited's (KAPL's) promoters in the manufacturing of speciality chemicals, and its diverse product profile. The ratings also note the company's reputed customer base comprising players from the oil and natural gas industry, and low customer concentration risk as evidenced by the 43% contribution of the top five clients to its total revenues in FY2018.

The ratings remain constrained by the company's moderate profitability and return indicators, the intense competition in the industry (specifically in the commoditised liquid phosphite antioxidant (LPA) segment) and the vulnerability of its profitability to volatility in the prices of raw materials, which are crude oil derivatives. The ratings further note the fluctuations in foreign exchange rates given the sizeable exports, though the risk is partly mitigated by the natural hedge from the company's imports and forward contracts.

ICRA notes that the company is undertaking a sizeable capital expenditure (capex) towards capacity expansion of its exiting unit in Chiplun (Maharashtra) and capacity set up in Dahej (Gujarat). The project cost witnessed a sizeable increase over the last two fiscals due to enhanced scope. While a major portion of the capex is already completed, the remaining is expected to be incurred by Q1 FY2020. While the capex is likely to aid revenue growth in the medium term, its timely completion without any further cost and time overruns, along with generation of commensurate returns, would be crucial from the credit perspective.

Outlook: Stable

ICRA expects KAPL to continue to benefit from the extensive experience of its promoters, its diversified product portfolio and its established clientele. The outlook may be revised to Positive if substantial growth in revenue and improvement in profitability strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if higher-than-anticipated debt-funded capex, or a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in speciality chemical manufacture - KAPL, incorporated in May 1990, is an industrial chemical manufacturer. It is involved in the supply of speciality chemicals, notably LPA and oilfield speciality chemicals (OFSC). The company is promoted by Mr. Krishna Gupta and his brother, Mr. Anil Gupta. Both the promoters have three decades of experience in the speciality chemical industry.

Diversified product profile - KAPL has a diverse range of products mainly targeted towards three customer categories - plastic, rubber and paint manufacturers, oil and natural gas producers (exploration and production (E&P) segment), and water treatment units. OFSC is the company's main product segment, wherein it supplies a wide range of chemicals (such as deflocculants, lubricants, viscosifiers, shale inhibitors, dispersants, corrosion inhibitors, demulsifiers etc). These are added during the various stages of oil exploration and production.

Reputed and diversified client base mainly includes oil and natural gas players - KAPL's clientele mainly weighs in favour of companies involved in the oil and natural gas drilling activities. It includes reputed multinationals, such as Oil and Natural Gas Limited, Oil India Limited, Reliance Industries Limited, Baker Petrolite Corporation etc. The company's overall customer concentration risk remains low, as evidenced by the 43% contribution of the top five clients to its total revenues in FY2018, which further reduced to 38% in 8M FY2019.

Credit challenges

Vulnerability of profitability to volatilities in raw material prices and forex rates - KAPL's key raw materials (chemicals) are crude oil derivatives and exhibit price fluctuations, mirroring the crude oil prices. Most of the contracts with customers are fixed-price in nature, which exposes KAPL's profitability to fluctuations in the raw materials prices. Further, its profitability remains exposed to forex risk, given that ~40-50% of its sales are derived through exports. The forex risk is, however, mitigated to some extent by the natural hedge provided by imports (which account for ~40-45% of the total purchases) and forward contracts booked by the company.

Intense competition due to fragmented nature of speciality chemical industry - The domestic speciality chemical industry is highly fragmented, and a large part of it is serviced by small and mid-sized entities. The LPA segment, in particular, is commoditised in nature, rendering it difficult for manufacturers to sustain high margins on these products. However, the OFSC segment is characterised by healthy demand indicators and restrictive entry barriers (such as adequate experience and stringent quality specifications). In this regard, KAPL has the advantage of an extensive and successful track record. It enjoys healthy association of nearly 5-10 years with most of its customers, which ensure revenue visibility over the medium term.

Moderation in profitability and return indicators - The company's operating profit margin (OPM) declined sharply in FY2018 to 6.36% from 11.77% in FY2017 on account of increased raw material costs (following the increase in crude oil prices), which could not be adequately passed onto clients, and lower sales realisation (due to the appreciation of INR against USD). Subsequently, KAPL's net profit margin (NPM) also stood lower at 3.39% in FY2018 against 7.18% in FY2017. The company's profitability remained at a similar level in 9M FY2019 with the OPM at 6.71% and the NPM at 2.29%. The company's return on capital employed (RoCE), which stood healthy at 40.97% in FY2017, moderated to 17.97% in FY2018 and 16.46% in 9M FY2019 due to lower profitability levels.

Liquidity position

The company's cash flow from operations remained positive in FY2018 due to lower incremental working capital requirements (owing to faster debtor realisations), although operating costs increased. The company had a cash and bank balance (including liquid investments) of Rs. 13.39 crore as on March 31, 2018. The monthly utilisation of the fund-based working capital limits averaged at 76% of the sanctioned limits during the 13-month period ended January 31, 2019, providing moderate cushion to the liquidity. The company's term loan repayments for the next three years remain moderate at Rs. 6.78 crore in FY2019, and Rs. 5.96 crore in FY2020 and FY2021.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

KAPL, incorporated in May 1990, is an industrial chemical manufacturer, involved in the supply of speciality chemicals, mainly LPA and OFSC. The company's promoters, Mr. Krishna Gupta and Mr. Anil Gupta, have over three decades of experience in LPA manufacturing. KAPL, at present, operates out of its three manufacturing units at Chiplun (two of which are dedicated to OFSC production and one to LPA). In FY2015, it purchased a speciality chemical manufacturing unit at Lote, Maharashtra, close to its existing Chiplun unit, to produce OFSC chemicals. KAPL maintains a bonded warehousing facility of ~500 tonne at Jawaharlal Nehru Port Trust (JNPT), Maharashtra. The company sells its products under the brand, Cristol.

In FY2018, KAPL reported a net profit of Rs. 11.17 crore on an operating income (OI) of Rs. 329.16 crore, compared to a net profit of Rs. 23.60 crore on an OI of Rs. 328.43 crore in the previous year. As per the provisional unaudited financials for 9M FY2019, the company reported a net profit of Rs. 6.22 crore on an OI of Rs. 271.56 crore.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	9M FY2019 (Provisional)
Operating Income (Rs. crore)	328.43	329.16	271.56
PAT (Rs. crore)	23.60	11.17	6.22
OPBDIT/OI (%)	11.77%	6.36%	6.71%
RoCE (%)	40.97%	17.97%	16.46%
Total Debt/TNW (times)	0.96	1.05	0.83
Total Debt/OPBDIT (times)	1.54	3.68	2.72
Interest Coverage (times)	8.08	3.90	3.19

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)						Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				March 2019	April 2018			
1 Fund-based Cash Credit	Long Term	20.00		[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Term Loans	Long Term	48.84	25.20*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3 Fund-based Working Capital	Short Term	26.00		[ICRA]A3+	[ICRA]A3+	-	[ICRA]A2	[ICRA]A2
4 Non-fund Based	Short Term	56.00		[ICRA]A3+	[ICRA]A3+	-	[ICRA]A2	[ICRA]A2

*outstanding as on March 31, 2018

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

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	Long-term Fund-based Cash Credit	-	-	-	20.00	[ICRA]BBB(Stable)
NA	Long-term Term Loans	FY2016	8.00%	FY2023	48.84	[ICRA]BBB(Stable)
NA	Short-term Fund-based Working Capital	-	-	-	26.00	[ICRA]A3+
NA	Short-term Non-fund Based	-	-	-	56.00	[ICRA]A3+

Source: KAPL

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

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