Kriti Nutrients Limited

October 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long / Short-term Bank Facilities	52.00	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive/ A Two)**	Reaffirmed
Short-term Bank Facilities	4.00	**CARE A2 (A Two)**	Assigned
Total	**56.00 (Rupees Fifty Six Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of Kriti Nutrients Limited (KNL) continue to derive strength from its established operations in solvent extraction and edible oil industry having wide product portfolio, strong brand image and marketing network in Central India and favourable pricing parity between prices of soya seed and soya De-Oiled Cake (DOC) and increasing sale of value added products providing medium term visibility of profitability margins. Moreover, the ratings also continue to factor in financial risk profile marked by significant improvement in profitability and debt coverage and continue low leverage during FY18 and Q1FY19. Financial risk profile is also expected to remain healthy, driven by strong cash accrual and absence of any major capital expenditure (capex) plans.

The ratings, however, continue to remain constrained on account of KNL's presence in the seasonal, volatile and competitive soya seed processing and edible oil industry, working capital intensive nature of operations, seasonality associated with availability of soya seeds and susceptibility of profitability to volatile raw material prices and foreign exchange fluctuations.

Ability of KNL to further increase its scale of operations while maintaining its profitability margins amidst volatile and competitive industry and efficient working capital management shall be the key rating sensitivities.

Outlook: Positive

Positive outlook reflects the expected benefits from continued favourable pricing parity, depreciation of Indian rupee and decline in competitiveness of United States of America's (USA) post introduction of import duty by China on US soya seeds. Collectively, these could benefit KNL in terms of increase in scale of operations, enhance its profitability as well as improve its debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to realise the envisaged benefits or any unfavourable change in Industry dynamics.

Detailed description of the key rating drivers

Key Rating Strengths

Established operations in solvent extractions and refining: KNL has an established track record of over a two decade in the solvent extraction and refining business. It crushes soya bean seeds to extract crude soya oil and soya value added products such as soya DOC, grits, flour and flakes. KNL further refines the crude soya oil and sells refined soya oil. KNL's brand 'Kriti' is well-known in central India's retail market, due to which its refined oil is entirely sold in a retail premium segment with no bulk sales. KNL largely exports its soya value added products. Moreover, with presence in retail segment, KNL is less susceptible to volatility in commodity prices.

Wide marketing and distribution network along with expanding portfolio of value added products: KNL has a network of around 200 dealers spread across India. Apart from the soya edible oil, KNL is also expanding its product base to manufacture high margin soya value added products for food, pharmaceutical and nutrition industry for which it has setup R&D facility at its manufacturing plant in Dewas, Indore. Also, KNL had set up facilities to manufacture high-grade lecithin and it supplies the same to leading FMCG Company worldwide. During FY18, the company derived nearly 65% of its net sales from sale of refined oil, 16% from soya DOC, 4% from sale of lecithin and balance 15% from other value added products.

Significant improvement in profitability margins: The total operating income of KNL remains stable during FY18 over FY17. Despite stable total operating income, PBILDT margin improved significantly during the year on account of favourable pricing parity between raw material cost (i.e. Soya seeds) and finished product pricing (mainly soya DOC) along with change in product mix towards the high margin value added products. With improvement in PBILDT margin along with relatively stable depreciation charge and interest cost, the PAT margin also improved during the year and remained healthy. Better profitability margins led to higher Gross cash accruals (GCA) which improved from Rs.9.00 crore during FY17 to Rs.19.21 crore during FY18.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Comfortable capital structure, strong debt coverage indicators and healthy return ratios: The capital structure marked by overall gearing ratio improved significantly from 1.20 as on March 31, 2017 to 0.56 as on March 31, 2018 due to lower working capital borrowings and accretion of profits to net worth. Due to strong cash flow from operations during FY18, KNL's reliance on working capital borrowings remains low along with complete repayments of term loans resulted into relatively lower interest cost. Further, the interest coverage continues to remain comfortable at more than 6 times during FY18 whereas the total debt to GCA too improved during FY18 backed by strong GCA and relatively low debt level. Moreover, KNL has higher capital efficiency marked by healthy ROCE and RONW indictors which has remained at more than 20% over past 3 years ended FY17 which improved significantly during FY18 at 35%.
Favorable industry scenario providing medium term visibility: Continuation of "Bhavantar Bhugtan Yojana (BBY)" by Government of Madhya Pradesh, decline in competiveness of US post introduction of import tariff by China on US soya seeds and depreciation of Indian Rupee vis-à-vis US dollar support the Indian soya processing industry in near term. Further, import duty hiked on edible oil by Government of India (GoI), increase in soybean crop area, increase in export incentives by GoI under Merchandise Export from India Scheme (MEIS) also favorably impacts the Indian soya processing and edible oil Industry.

Key Rating Weakness
Working capital intensive nature of operations: KNL purchases soya seed for solvent extraction or crude soya oil for refining, depending on the availability of seed, its quality and parity with international DOC prices. Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from mandis. KNL's requirement of working capital is influenced by the seasonal availability and quality of soya bean seeds, which is generally high during the peak season. KNL funds the large part of its working capital requirement through bank borrowings. The average fund based working capital utilizations level remained high for past trailing 12 months ended June 2018 to fund the increased scale of operations. However, the operating cycle stood modest at 32 days during FY18.
Exposure to volatility in raw material and forex rates: KNL uses soya seeds or soya crude oil as its major raw material whose prices are globally determined on the basis of demand and supply of soya seeds, which in turn depends upon rainfall and area under cultivation. Moreover, KNL also derives nearly 30% of its revenue from exports whereas the import on the other side is negligible. Hence, KNL is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates. However, KNL generally enters into derivative contracts depending on the company's hedging policy apart from availment of foreign currency denominated working capital borrowings which partially mitigates the forex risk.
Presence in competitive domestic edible oil industry: The Indian edible oil industry is highly competitive due to low entry barriers and low capital intensity. Thus, profitability is inherently low and is further exposed to movement in prices of soya bean seed, finished goods (mainly DOC and soya refined oil) and other substitute oils. However, government increases import duty from time to time on the edible oils to protect domestic players thereby leading to improvement in the capacity utilization of domestic soya bean crushing operations.

Analytical Approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
About the Company
KNL is engaged in the extraction of soya oil from soya seeds and refining of crude soya oil and manufacturing of other value added soya based products. The main products of KNL include refined soya oil, soya DOC, soya flakes, soya grits, soya floor and soya lecithin. KNL's manufacturing facilities are located at Dewas, Madhya Pradesh (MP) with a solvent extraction capacity of 360,000 metric tonne per annum (MTPA) and oil refining capacity of 60,000 MTPA as on March 31, 2018. KNL sells its refined oil under the brand 'Kriti'.

Brief Financials (Rs. crore)	FY17 (Aud.)	FY18 (Aud.)
Total operating income	460.19	462.60
PBILDT	16.73	32.88
PAT	6.29	15.79
Overall gearing (times)	1.20	0.56
Interest coverage (times)	3.54	6.36

During Q1FY19, as per un-audited results, KNL reported a net profit of Rs.6.04 crore on total operating income of Rs.138.14 crore as against Rs.3.16 crore and Rs.110.91 crore during Q1FY18 respectively.
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	52.00	CARE BBB+; Positive / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	4.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	52.00	CARE BBB+; Positive/ CARE A2	1)CARE BBB+; Positive / CARE A2 (25-Sep-18)	1)CARE BBB+; Stable / CARE A2 (06-Mar-18) 2)CARE BBB; Stable (05-Oct-17)	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)
2.	Non-fund-based - ST-Credit Exposure Limit	ST	4.00	CARE A2	-	-	-	-
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (05-Oct-17)	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	1)Withdrawn (06-Mar-18) 2)CARE BBB; Stable / CARE A3+ (05-Oct-17)	1)CARE BBB / CARE A3+ (06-Oct-16)	1)CARE BBB / CARE A3+ (25-Nov-15)

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