Kriti Nutrients Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	22.00	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	**Reaffirmed**
Short Term Bank Facilities	2.40 (Reduced from 4.00)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**24.40 (Rs. Twenty-Four Crore and Forty Lakhs 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 experienced promoters and established track record of operation in solvent extraction and edible oil industry having diversified product portfolio with strong presence in the branded refined oil segment and established marketing network in central India. The ratings also derive strength from its growing albeit moderate scale of operations, comfortable capital structure, strong debt coverage indicators, lean operating cycle and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate profitability which declined during FY21 (FY refers to the period from April 1 to March 31) and Q1FY22 with increase in input cost, presence in the competitive refined oil and solvent extraction industry, seasonality associated with availability of soya seeds and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuations.

Rating Sensitivities

Positive Factors

- Increase in scale of operation with total operating income (TOI) of over Rs.1000 crore though greater geographical and product diversification on sustained basis.
- Improvement in profitability with profit before interest, lease, depreciation and tax (PBILDT) margin of over 8% on a sustained basis through greater share of value-added products or deeper brand penetration

Negative Factors

- Decline in scale of operations with TOI falling below Rs.400 crore and PBILDT margin below 3% on sustained basis.
- Any major debt funded capex and/or increase in working capital intensity of its operations resulting in overall gearing over 1 time on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and KNL's established operations in solvent extraction and edible oil industry

Mr. Shiv Singh Mehta (Chairman and Managing Director) who looks after overall operations of KNL is a qualified engineer and holds master's degree in business administration with an experience of more than two decades in the edible oil seed extraction and refining business. Mr. Mehta is assisted by his wife Mrs. Purnima Mehta in the capacity of Director and his son Mr. Saurabh Singh Mehta in the capacity of Whole-time Director in the overall functioning of the company. This apart, KNL's board also includes experienced independent directors viz. Mr. Rakesh Kalra [Ex. MD of Eicher Motors Limited], Mr. Manoj Fadnis [Ex-President of Institute of Chartered Accountants of India (ICAI), New Delhi for the year of 2015-16 and Vice President of ICAI for the year of 2014-15] and Mr. Chandrasekharan Bhaskar (Managing Director of Xpro India Limited).

KNL has an established track record of over two decades in the solvent extraction and edible oil refining business. Its refined edible oil brand 'Kriti', is well-known in central India's branded edible oil market (mainly Madhya Pradesh), due to which its refined oil is sold entirely in the premium retail segment with no bulk sales. It also crushes soya bean seeds to extract crude soya oil and manufactures soya de-oiled cake (DOC) as well as soya value added products. KNL largely exports its soya value added products. Overall capacity utilization of solvent extraction segment improved from 10% during FY20 to 15% during

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

FY21 on the back higher soyabean crushing whereas capacity utilization of refined oil segment declined marginally from 79% during FY20 to 74% during FY21.
Its group company, Kriti Industries (India) Limited (KIL; rated CARE BBB+; Stable/CARE A2) is engaged in manufacturing of plastic pipes (PVC, HDPE, LDPE), ducts, fittings and mouldings at its manufacturing facility located in Madhya Pradesh.

Wide marketing and distribution network along with wide portfolio of value added products; albeit geographical concentration
KNL has a diversified product portfolio which includes refined edible oil (majorly Soyabean refined oil), Soya DOC, lecithin, value added products like Soya flakes, soya grits, soya flour and other soya-based protein products. During FY21, KNL derived nearly 69% of its net sales from refined oil, 26% from soya meal and balance 5% from lecithin and other products.
KNL has a wide network of more than 200 dealers spread across India; albeit with major focus on Central India. Though KNL has presence in 17 states, majority of its domestic sales are still concentrated in the state of Madhya Pradesh with 84% share (of domestic sales) in FY21 (FY20: 91%). KNL is also planning to expand the portfolio of its value-added products for which it has R&D facility at its manufacturing plant in Dewas, Indore. It has a dedicated team of professionals who are continuously engaged in developing diversified and value-added products.

Growing albeit moderate scale of operation
TOI of KNL grew by 32.21% from Rs.523.65 crore in FY20 to Rs.692.35 crore in FY21 on the back of growth in sales volume of refined soya bean oil and soya meal segment along with increase in the avg. realization across product categories due to increase in the raw material price. Sales volume of refined soyabean oil grew by 20% during FY21 on y-o-y basis with increased sales to neighbouring states along with growing demand from its traditional market i.e. Madhya Pradesh. Sales volume of soyameal grew by 56% during FY21 on y-o-y basis. Despite growth in its operation, KNL has a small share of the overall domestic edible oil market and it scale of operation has remained at moderate level with geographical concentration.

Comfortable capital structure and strong debt coverage indicators
KNL continued to have comfortable capital structure which further improved from 0.10x as on march 31, 2020 to 0.04x as on March 31, 2021 on the back of its low debt level and moderate net-worth base. Total debt (including lease liability) of KNL remained low at Rs.3.54 crore as on March 31, 2021 as compared to Rs.9.04 crore as on March 31, 2020. T. net-worth remained moderate at Rs.100.31 crore as on March 31, 2021.
With low debt levels, overall debt coverage indicators market by total debt to gross cash accruals (TDGCA) and PBILDT Int. Coverage too remained strong and improved from 0.46x and 16.02x respectively during FY20 to 0.19x and 26.09x respectively during FY21. Moreover, KNL has higher capital efficiency marked by healthy return indicators with adj. return on capital employed (ROCE) of 20.68% and return on net worth (RONW) of 16.01% in FY21.
With no major debt funded capex planned in near to medium term, KNL is expected to maintain its comfortable capital structure.

Liquidity: Adequate
KNL has adequate liquidity marked by healthy cash accruals with no long term debt repayment obligations, lean operating cycle, comfortable liquidity ratios and low utilization of its fund-based working capital limits at an average of 18% during the trailing 12 months ended July 31, 2021. The operating cycle remained lean at 24 days in FY21. Cash flow from operation remained moderate at 15.69 crore during FY21 (Rs.18.60 crore during FY20).
Current ratio and quick ratio remained strong and improved from 2.07x and 1.08x respectively as on March 31, 2020 to 3.67x and 1.32x respectively as on March 31, 2021. KNL had cash and bank balance of Rs.3.02 crore as on March 31, 2021. KNL has also extended loans & advances of Rs.10 crore to its group company (KIL) which is repatriable on demand as articulated by the company management.

Key Rating Weaknesses
Moderate profitability which declined during FY21 and Q1FY22
PBILDT margin of KNL declined from 5.19% during FY20 to 3.54% during FY21 and 2.34% during Q1FY22 on the back of significant increase in the raw material prices in the domestic market. Profit after tax (PAT) margin, declined by 146 bps from 3.63% during FY20 to 2.17% during FY21 and 2.25% during Q1FY22. There was significant increase in the soyabean seeds prices and (avg. procurement price of ~31 per KG in FY20 to Rs.54 per KG in FY21 and Rs.72 per KG in Q1FY22) in last one year which company was not able to pass on to its customers due to its fixed price nature of its contracts in the soyameal segment wherein prices are generally revised on quarterly basis. However, for refined oil company was able to pass on the price increase to a large extent. Going forward, as articulated by the management, with revision in the price related contractual terms from quarterly to monthly basis, profitability is expected to improve.

Seasonality associated with availability of soya seeds

Crude soya oil and soya bean seeds are the main raw material for KNL. Soyabean seeds are purchased locally from farmers and local mandis whereas it purchases crude soyabean oil in bulk from various importers. Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from mandis in Madhya Pradesh. Solvent extraction operation of KNL depends upon the availability of seed, its quality and parity with international finished goods (meal and oil) prices. KNL's requirement of working capital is also influenced by the seasonal availability and quality of soya bean seeds, which is generally high during the peak season.

Exposure to volatility in raw material prices and forex rates

Crude soya oil and soya bean seeds are the main raw material for KNL. Prices of soyabean seeds depend on various factors like demand-supply dynamics, government policy like minimum support price, crop pattern, rainfall, area under cultivation. Prices also reflect the international demand-supply gap and weather conditions in major soya growing nations such as USA, Brazil, China, India and Argentina. Crude edible oil prices are also influenced by cost of import, as well as regulatory policy (import/export duty) and price differential among other edible oil alternatives. At times, oilseed crushing operations become economically unviable due to higher oilseed prices and its price parity as compared with finished products. Domestic soyabean seeds have shown increasing trend in last one year and are expected to decline with fresh crop arrival from October 2021. Over the years, KNL's management has practiced sound inventory management policy resulting in stable gross margin in branded refined edible oil but soya meal and value added segment has shown higher impact of price volatility.
KNL derived 14% of its revenue from exports in FY21 (19% in FY20) whereas import on the other hand was negligible. Hence, KNL is a net exporter and generally manages its foreign exchange risk by entering into forward contracts for its export receivables. During FY21, it reported forex gain of Rs.0.51 crore.

Competitive industry landscape albeit stable industry outlook

The Indian solvent extraction and edible oil industry is highly competitive due to low entry barriers and low capital intensity. few large integrated players, having wide distribution network and strong brand positioning, along with medium-sized regional players which restricts pricing power to certain extent. Thus, profitability is inherently low and is further exposed to movement in prices of raw material, finished goods and other substitute. The sector is also dependent on the key government policy such as fixing of minimum support price for agriculture commodity and levies of import duty.
India is one of the major soya seed producing countries with fair share in exports of soya meal. There was significant increase in the soya meal export from India during FY21 due to lesser supply from the Argentina and Brazil coupled with good demand of Non-Genetically Modified (GMO) soyabean meal from the U.S.A. and Europe and revival of export to Iran. However, due to significant increase in the raw material prices in the domestic market (as compared to export market), soyabean meal export from India decline during 4MFY22 on y-o-y basis.
However, soyameal industry is expected to grow at a steady rate with strong demand from the various food segment such as Ready to Eat Snacks, Meat Replacement, Confectionary and Bakery among others. With increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase, which would provide more pricing power to the branded players.

Analytical approach: Standalone
Applicable Criteria:
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology: Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-financial Sector Entities]

About the company

Promoted by Mr. Shiv Singh Mehta, KNL (CIN: L24132MP1996PLC011245) is primarily engaged in the manufacturing of refined soya edible oil and soya bean based value added products. The main products of KNL include branded refined soya oil, soya De-Oiled Cake (DOC)/ soya meal, soya flakes, soya grits, soya floor and soya lecithin. KNL sells its refined edible oil under the brand 'Kriti' which is an established name in Central India. 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, 2020. KNL was de-merged in January 2010 from Kriti Industries (India) Limited (KIL). KIL had two divisions before the demerger, viz, edible oil & solvent extraction along with plastic fittings & engineered auto components. The plastic fittings & engineered auto components division continues to remain with KIL.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (A)
Total operating income	523.66	692.35
PBILDT	27.20	24.48
PAT	19.01	15.06
Adj. Overall gearing (times)*	0.10	0.04
Interest coverage (times)#	16.02	26.09

A: Audited

As per the published results, KNL earned a PAT of Rs.1.95 crore on a TOI of Rs.160.83 crore in Q1FY22 as against PAT of Rs.8.16 crore on a TOI of Rs.171.33 crore in Q1FY21.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instruments/facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	-	-	-	-	22.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.40	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	22.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Oct-20)	1)CARE BBB+; Positive / CARE A2 (01-Oct-19)	1)CARE BBB+; Positive / CARE A2 (03-Oct-18)2)CARE BBB+; Positive / CARE A2 (25-Sep-18)
2	Non-fund-based - ST-Credit Exposure Limit	ST	2.40	CARE A2+	-	1)CARE A2+ (06-Oct-20)	1)CARE A2 (01-Oct-19)	1)CARE A2 (03-Oct-18)

**Long Term/Short Term*

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple

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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