Kriti Industries (India) Limited

October 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	71.25 (Enhanced from 70.99)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	130.00	**CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)**	**Reaffirmed**
Short Term Bank Facilities	4.50 (Reduced from 9.50)	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**205.75 (Rs. Two Hundred Five Crore and Seventy-Five Lakhs Only)**		

Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kriti Industries (India) Limited (KIL) continue to derive strength from the vast experience of its promoters, established operations in plastic pipes and fittings industry, its widespread distribution network with diversified clientele and moderate scale of operations. The ratings also factor KIL's adequate liquidity and stable demand outlook for plastic pipes industry.

The ratings, however, continue to remain constrained due to its moderate capital structure and debt coverage indicators, its moderate profitability which is susceptible to volatile raw material prices, volatility in foreign exchange rates and supplier concentration risk for its key raw materials. The ratings are further constrained due to its large working capital requirements, seasonality associated with demand for KIL's products and presence in a highly competitive plastic pipes manufacturing industry.

Rating Sensitivities

Positive Factors

- Significant increase in its scale of operations through greater geographical diversification along with improvement in its profit before interest, lease, depreciation and tax (PBILDT) margin to over 10% on a sustained basis
- Improvement in its overall gearing to below 0.70 times and total outside liability (TOL) to T. net-worth (TNW) to below unity on sustained basis
- Curtailment of its gross operating days (Inventory + Receivables days) to below 90 days on sustained basis

Negative Factors

- Decline in PBILDT margin to below 5% on sustained basis along with adverse impact on its debt coverage indicators
- Any debt funded capex or stretch in working capital requirements leading to deterioration in its overall gearing beyond 2.00 times or TOL/TNW beyond 2.50 times on sustained basis
- Elongation in its gross operating days beyond 180 days on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters

Mr Shiv Singh Mehta, Chairman and Managing Director, has total experience of more than 30 years and looks after the overall operations of the company. He 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, the board of directors of KIL also includes experienced independent director 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 [MD of Xpro India Limited].

Its group company Kriti Nutrients Limited (KNL; rated CARE A-; Stable/CARE A2+) is engaged in the business of edible oil refining, solvent extraction and manufacturing of soya value added products at its manufacturing facility located in Madhya Pradesh.

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

Established operations in plastic pipes and fittings business with wide-spread distribution network and diversified clientele
KIL has over three decades of experience in the plastic pipe industry with good presence in Madhya Pradesh and Rajasthan catering to the demand from agriculture and industrial segments. During FY19, KIL forayed into the markets of Maharashtra and Telangana with an aim of greater geographical diversification of its sales which has resulted in reduced dependence of its sales to its two largest markets (M.P. and Rajasthan) from 88% in FY18 to 79% during FY21. In its overall product mix during FY21, agriculture segment constituted 83% of net sales, industrial segment (which includes sales to industries like city gas distribution (CGD) and telecommunication) constituted 11%, infrastructure segment constituted 5% and micro irrigation constituted 1%. During FY21 there was overall decline in volume with major decline in industrial segment amidst Covid 19 disruptions.
KIL is largely a retail centric company with ~89% of sales (during FY21) through trade partners who retail to the consumers. It has a wide distribution network of approximately 700 dealers across 15 states. KIL sells PVC pipes under the brand name of "Kasta". It can manufacture polymer extruded pipes from 20 mm to 710 mm. KIL enjoys long standing relationship with some of the reputed customers in its industrial segment across CGD, Telecom and Infrastructure sectors.

Moderate scale of operations
Total operating income (TOI) of KIL grew by 10% on y-o-y basis from Rs. 536.03 crore during FY20 to Rs.590.06 crore during FY21 mainly on account of increase in the avg. realization across product categories (except micro irrigation) on the back of increase int the raw material cost. Total sales volume however declined by 6% during F21 on y-o-y basis. Sales volume of Agriculture sector grew moderately by 4% however, sales volume of industrial segment declined by 50% on y-o-y basis during FY21. Sales volume of building products, though remained at small level, grew on y-o-y basis. KIL has small presence in the micro irrigation segment. Overall KIL continued to operate on the moderate scale of operation.
KIL achieved TOI of Rs.154.20 crore during Q1FY22 which was inline with TOI of Rs.155.47 crore during Q1FY21. Total sales volume declined by 37% during Q1FY22 on y-o-y basis. Decline in the sales volume during Q1FY22 was mainly due to impact of 2nd wave of Covid-19 pandemic, which had wide impact in rural areas and resultant localize lockdown affecting the rural purchase for the agriculture purpose.

Stable demand oulook for the plastic pipes industry
The demand for plastic pipes is catalyzed by the growth of agricultural, real estate, city gas distribution (CGD) and telecom industries. Demand outlook for the Indian plastic pipes industry is expected to be stable with increase in government spending on construction & infrastructure along with a thrust to the agriculture sector by way of higher targeted production and productivity and more availability of credit and focus on micro-irrigation segment along with various initiatives such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), SWACHH Bharat Mission, Smart Cities Mission and Doubling farm income etc., Investment in India's real estate sector is likely to be driven by the Government's initiative of 'Housing for All' by 2022. A rise in population, rapid urbanization and increasing income level is projected to drive the demand for the housing sector, which, in turn, could drive the demand for PVC pipes and fittings. Moreover, demand from Telecom sector as well as CGD segment is also expected to remain stable in near to medium term.

Key Rating Weaknesses
Moderate profitability
PBILDT margin of KIL improved by 295 bps from 8.86% during FY20 to 11.81% during FY21 mainly on account cost control measures, increase in the avg. realization and inventory gain (~Rs.6 crore during FY21) on the back of increase in raw material prices. Increase at PBILDT level along with significant decline in interest and finance cost (due to decline in the avg. working capital utilization level), profit after tax (PAT) margin also improved by 288 bps from 3.59% during FY20 to 6.47% during FY21. However, PBILDT margin moderated to 8.94% during Q1FY22 (Q1FY21L: 9.33%) and is expected to remain around 9% with higher proportion of Agriculture segment.
Overall KIL has moderate profitability as compared with other plastic pipes manufactures as it has major presence in the agriculture segment (83% share in net sale during FY21). As articulated by the management, profitability is expected to improve going forward with increasing focus of the company on building products and infrastructure segment.

Moderate leverage and moderate debt coverage indicators which has shown improving trend
Capital structure of KIL improved from 1.59x as on March 31, 2020 to 1.13x as on March 31, 2021 on the back of increase in net-worth base with plough back of profit and its moderate debt level. Despite improvement, its capital structure remained moderate with TOL/TNW of 1.41x as on March 31, 2021. With improvement in the profitability, overall debt coverage indicators marked by total debt to gross cash accruals (TDGCA) and PBILDT Int. coverage improved from 7.05x and 2.75x during FY20 to 3.48x and 6.36x during FY21.

Large working capital requirements
KIL's working capital requirements are large marked by gross operating days of around 136 days in FY21 (FY20: 137 days). It has large working capital requirement mainly on account of its diverse product offerings wherein it needs to keep the minimum inventory level and seasonality associated with its agriculture segment of business which results in higher inventory holding prior to the commencement of season which is Q1 (Pre-monsoon) and Q3 (Post monsoon). Average inventory days increased from 93 days during FY20 to 105 days during FY21 mainly due to increase in finished goods inventory. Average receivables improved from 44 days in FY20 to 31 days in FY21 with better collection efficiency. KIL uses letter of credit (LC) for its raw material procurement having usance period of 90 days for domestic LC and 120 days for import LC. Average creditor's days reduced from 97 days in FY20 to 86 days in FY21. Overall operating cycle remained at 49 days during FY21 (FY20: 39 days).

Susceptibility of profitability to volatile raw material prices with supplier concentration and foreign exchange fluctuation risk
Raw material is the major cost for KIL which accounts for 87% of total cost of sales during FY21. The primary raw material consumed by KIL is PVC resin which is crude derivative and its price is directly linked to the crude oil prices movement which remained volatile in nature, thus affecting the avg. realization of the end products and profit margins. The PVC industry in India has few major producers and a significant portion of the total polymer requirement in India is also met through imports. Plastic pipes products manufacturers are also affected by forex volatility affecting crude oil prices and import duty changes on polymers.
KIL majorly procures its PVC requirement domestically from Reliance Industries Limited (RIL, 60% of its total purchase during FY21) while some portion of requirement (10% during FY21) is also met through imports thus exposing it to supplier concentration risk along with volatility in the foreign exchange with nil export sales. However, KIL enters into forward contracts for hedging foreign exchange exposures against imports thus partially mitigation the risk.

Competitive industry landscape and seasonality associated with business
A significant portion of the Indian plastic pipes industry comprises of unorganized players on account of low entry barriers and commoditized nature of the product resulting in high competition and limited pricing power. KIL faces stiff competition from much larger organized sector players with nationwide brands like 'Astral', 'Prince', 'Finolex', 'Supreme', 'Ashirwad', etc. High competitive intensity restricts the profitability margins of the smaller plastic pipe manufacturers with regional presence. However, KIL has strong presence in Madhya Pradesh and Rajasthan where its brand 'Kasta' enjoys good market share especially in the agriculture segment.
Sales of KIL are seasonal in nature with Q1 (Pre-monsoon) and Q3 (Post-monsoon) of the financial year together contributing nearly 60-65% of its annual sales wherein there is a high demand particularly from the agriculture segment.

Liquidity: Adequate
KIL has adequate liquidity with moderate cash accruals against its moderate debt repayment obligations and cushion available from unutilized working capital limits. KIL is expected to earn GCA of ~Rs.30-35 crore for FY22 as against its debt repayment obligation of around Rs.7 crore. Avg. fund based working capital utilization remained low at 17.74% and avg. non-fund-based working capital utilization remained moderate at 46.91% for past twelve months ended on August 31, 2021. Cash flow from operation remained moderate at Rs.28.85 crore during FY21 as compared with Rs.32.98 crore during FY20. Current ratio and quick ratio remained moderate at 1.29x and 0.32x respectively as on March 31, 2021. It had cash and bank balance of Rs.0.58 crore (excluding margin money of Rs.15.37 crore) as on March 31, 2021.

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, KIL (CIN: L25206MP1990PLC005732), is engaged in the manufacturing of the plastic pipes, ducts and mouldings. In January 2010, KIL's solvent extraction division was demerged into separate listed entity named Kriti Nutrients Limited (KNL; rated CARE A-; Stable/ CARE A2+) and its auto component manufacturing division was hived off into a 100% subsidiary named Kriti Auto and Engineering Plastic Private Limited (KAEPPL). KIL manufactures plastic pipes, ducts and

fittings made of PVC/LDPE/MDPE and HDPE which caters to the demand of Agriculture, Gas, Telecom and Infrastructure segment. The pipes manufactured by KIL are sold under brand name of "Kasta".
KIL's facilities are located at Pithampur, Madhya Pradesh with a total installed capacity of 1,25,000 metric tonne per annum (MTPA) as on June 30, 2021.

Brief Financials (Rs. Crore)	**FY20 (A)**	**FY21 (A)**
Total operating income	536.03	590.06
PBILDT	47.48	69.71
PAT	19.24	38.20
Overall gearing (times)	1.59	1.13
Interest coverage (times)	2.75	6.36

A: Audited
As per the published results, KIL earned a PAT of Rs.6.45 crore on a TOI of Rs.154.20 crore in Q1FY22 as against PAT of Rs.7.23 crore on a TOI of Rs.155.47 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-Cash Credit	-	-	-	-	50.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	130.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	-	February 2025	21.25	CARE BBB+; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	-	2.00	CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.50	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-Cash Credit	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Oct-20)	1)CARE BBB+; Stable (01-Oct-19)	1)CARE BBB+; Stable (25-Sep-18)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	130.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (06-Oct-20)	1)CARE BBB+; Stable / CARE A2 (01-Oct-19)	1)CARE BBB+; Stable / CARE A2 (25-Sep-18)
3	Term Loan-Long Term	LT	21.25	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Oct-20)	1)CARE BBB+; Stable (01-Oct-19)	1)CARE BBB+; Stable (25-Sep-18)
4	Fund-based - ST-Standby Line of Credit	ST	2.00	CARE A2	-	1)CARE A2 (06-Oct-20)	1)CARE A2 (01-Oct-19)	1)CARE A2 (25-Sep-18)
5	Non-fund-based - ST-Credit Exposure Limit	ST	2.50	CARE A2	-	1)CARE A2 (06-Oct-20)	-	-

**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-Cash Credit	Simple
2	Fund-based - ST-Standby Line of Credit	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	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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