Kanoria Chemicals & Industries Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	105.04 (Reduced from 113.33)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	65.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**170.04 (₹ One Hundred Seventy Crore and Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Kanoria Chemicals & Industries Ltd (KCIL) factors in the improvement in financial performance of the company during FY22 (refers to the period April 1 to March 31) marked by increase in total operating income (TOI) and substantial improvement in profitability margins and consequent improvement in capital structure and debt protection metrics. However, there has been moderation in profitability margins during H1FY23 (refers to the period April 1 to September 30) majorly owing to higher raw material prices i.e. Methanol during the period, along with moderation in selling price of formaldehyde. The rating also takes into the consideration the successful installation and commissioning of phenolic resin capacity in December 2022.

The ratings also continue to derive comfort from the experience of the promoters, presence of the group in diversified businesses, long track record of operations of the company in the chemicals business and satisfactory capital structure and debt protection matrices.

Ratings, however, continue to remain constrained by vulnerability of profitability to volatility in input prices and high exposure in group companies also leading to low return on capital employed.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Divestment of exposure in group companies leading to improvement in return metrics.
- Increase in scale of operations (>Rs.700 crore) along with Return on Capital Employed (ROCE) moving beyond 10% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin (<7%) on a sustained basis.
- Deterioration in overall gearing (>0.60x) and TD/GCA (>7x) on a sustained basis.
- Material increase in percentage of pledge of the promoters' share in KCIL from current levels.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations of the company in the chemical segment: KCIL is a part of the SS Kanoria Group with long presence in the fields of chemicals, petrochemicals, textiles and jute. KCIL has an operational track record of more than five decades in the chemical business. Mr. R.V. Kanoria (son of Late S. S. Kanoria), CMD, takes care of day-to-day affairs of the company and has more than three decades of experience in the business.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improvement in financial performance in FY22 albeit moderation in profitability in H1FY23: Financial performance of the company witnessed sharp improvement in FY22 marked by increased total operating income (TOI) and improvement in the operating margins. TOI grew by around 67% y-o-y in FY22 on account of higher sales volumes as demand from user industries increased post covid-19 and increase in average sales realization across all the major products. Also, PBILDT margins improved by 174 bps y-o-y in FY22 due to better absorption of fixed overhead attributable to increase in the scale of operations and improvement in production efficiency; also supported by increase in average sales realization across all the major products. Consequently, PBILDT and gross cash accruals (GCA) levels nearly doubled and tripled, respectively, in FY22 over FY21.

In H1FY23, turnover of the company increased to Rs.366 crore as against turnover of Rs.295 crore in H1FY22 on the back of sustained demand from user industries; supported by increase in selling prices of products, mainly Hexamine. However, despite increase in turnover, profitability of the company witnessed moderation in H1FY23 vis-à-vis H1FY22 and FY22 mainly on account of higher raw material prices i.e. Methanol along with moderation in average selling price of formaldehyde. The company earned PAT and GCA of Rs.8.42 crore and Rs.20.12 crore in H1FY23 vis-à-vis PAT and GCA of Rs.12.70 crore and Rs.26.42 crore, respectively in H1FY22.

Satisfactory capital structure and debt protection matrices: KCIL's overall gearing has been comfortable at 0.15x as on March 31, 2022, majorly due to high net worth, having marginally improved from 0.20x as on March 31, 2021. The improvement was largely due to gradual repayment of term debt. Furthermore, the total debt/GCA improved significantly to 1.8x as on Mar'22 as against 7.3x as on Mar'21 mainly due to increase in gross cash accruals (GCA) levels during the year, along with decline in total debts.

Key Rating Weaknesses

High exposure in group companies: The company has fund based exposure in subsidiary companies in the form of investment and loans & advances amounting to around Rs.270 crore as on March 31, 2022 (around Rs.258 crore as on March 31, 2021) accounting for 42.4% of its net-worth (42% in FY21). Also, KCIL has extended corporate guarantee (outstanding guarantee of around Rs.186 crore as on March 31, 2022; loan outstanding against such guarantee stood at Rs.144 crore) for loans availed by subsidiary companies.

Out of the total outstanding exposure to group companies (Rs.414 crores), around Rs.321 crore was outstanding against subsidiary Kanoria Africa Textile PLC (KAT), Ethiopia, (Rs.184 crores fund based and Rs.137 crore outstanding against corporate guarantee of Rs.152 crore). The performance of KAT witnessed moderation in FY22 and H1FY23 owing to local issues in Ethiopia. Nonetheless, it is expected that KAT will earn adequate gross cash accruals to meet its debt repayment obligations without any further support from KCIL.

Further, KCIL has exposure of around Rs.93 crore in subsidiary APAG Holding AG (APAG), Switzerland (including loan outstanding of Rs.7 crore against corporate guarantee of around Rs.34 crore). Financial performance of APAG also moderated in FY22 mainly attributable to the shortage of semi-conductors. However, financial performance of APAG has started improving in H1FY23 and expected to improve further in short to medium term. Also, management has reiterated that APAG will earn adequate cash accruals to meet its repayment obligations.

Volatile raw material prices: Raw material prices, especially for methanol have been volatile over the past few years. This is mainly due to volatility in the crude oil prices coupled with volatility in the global demand and supply metrics for methanol. This makes KCIL's profitability susceptible to the volatile prices of methanol.

Liquidity: Adequate

Adequate liquidity is characterized by comfortable cushion in accruals (Rs.54 cr.) vis-à-vis scheduled repayment obligations (Rs.9.06 cr.) in FY22; supported by above unity current ratio and free cash and cash equivalents of around Rs. 26 crores (including Rs.8 crore of investment in the form of mutual fund) as on March 31, 2022. Furthermore, the company has already completed addition of phenolic resin capacity at cost of around Rs.28 crore during H1FY23 and the same was entirely funded through internal accruals.

Going forward, on the back of healthy GCA, it is projected that liquidity position of the company will remain adequate in FY23 to meet is scheduled debt repayment obligations and regular capex.

Analytical Approach: Standalone. Exposure in the group companies has also been factored in the rating.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Kanoria Chemicals & Industries Ltd. (KCIL), promoted by Late S. S. Kanoria about five decades ago, is the flagship company of S. S. Kanoria faction of Kolkata based Kanoria family. The company has three manufacturing facilities at Ankleshwar in Gujarat and at Visakhapatnam and Naidupeta in Andhra Pradesh for the manufacture of alco Chemicals primarily Pentaerythritol, Formaldehyde and Hexamine. The company has a solar power plant of 5.0 MW capacity in Jodhpur, Rajasthan.

Its major two subsidiaries are Kanoria Africa Textiles Plc in Ethiopia engaged in denim manufacturing and APAG Holding AG, Switzerland engaged in the design, development and manufacturing of electronic control units (ECUs) and LED-based concept or design lighting modules primarily for the automotive industry.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY22 (U/A)
Total operating income	388.17	649.11	365.80
PBILDT	28.73	59.34	27.23
PAT	-3.67	24.99	8.42
Overall gearing (times)	0.20	0.15	NA
Interest coverage (times)	2.30	6.50	6.50

A: Audited; U/A: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	30.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	November, 2027	75.04	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	65.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	65.00	CARE A2+	-	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (11-Mar-21) 2)CARE A1 (06-Apr-20)	1)CARE A1+ (05-Apr-19)
2	Commercial Paper	ST	-	-	-	-	1)Withdrawn (06-Apr-20)	1)CARE A1+ (05-Apr-19)
3	Fund-based - LT-Cash Credit	LT	30.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)	1)CARE A+; Stable (05-Apr-19)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)Withdrawn (07-Jan-22)	1)CARE A-; Negative / CARE A2+ (11-Mar-21) 2)CARE A; Negative / CARE A1 (06-Apr-20)	1)CARE A+; Stable / CARE A1+ (05-Apr-19)
5	Fund-based - LT-Term Loan	LT	75.04	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)	1)CARE A+; Stable (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: 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 - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gopal Pansari
Phone: 9331331422
E-mail: gopal.pansari@careedge.in

Relationship contact
Name: Lalit Sikaria
Phone: + 91-033- 40181600
E-mail: lalit.sikaria@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in