Kanoria Chemicals & Industries Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	113.33 (Enhanced from 83.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	65.00 (Enhanced from 50.00)	CARE A2+ (A Two Plus)	Reaffirmed
Long Term / Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**178.33 (Rs. One Hundred Seventy-Eight Crore and Thirty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings outlook to "Stable" from "Negative" for the bank facilities of Kanoria Chemicals & Industries Ltd (KCIL) factors in the successful implementation of resolution plan of its subsidiary Kanoria Africa Textile's (KAT) debt guaranteed by KCIL along with sustained improvement in the standalone financial performance of KCIL driven by improvement in sales realization and volume of both formaldehyde and Pentaerythritol attributable to higher demand from end user segments.

The ratings 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, improvement in profitability in FY21 (refer to the period April 1 to March 31) and H1FY22 and satisfactory capital structure and debt coverage indicators. Ratings 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.550 crore) on a sustained basis.
- Return on Capital Employed 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.
- Inability to achieve adequate improvement in its ROCE 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 level

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

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.

Satisfactory financial performance marked by improvement in operating profitability in FY21 & H1FY22

KCIL's income from operations increased by 7% y-o-y in FY21 mainly due to increase in sales realizations of Formaldehyde by 29% y-o-y in FY21. Sharp rise in sales realizations of formaldehyde was on account of supply issues in the industry coupled higher demand from the end user industry. This apart volumes and realisations of Pentaerythritol also witnessed increase due to increased demand from end user industry. Accordingly, PBILDT margins have also improved by 441 bps in FY21. Nevertheless, the company has reported loss of Rs.3.67 crore due to extraordinary expenses of Rs.6.08 crore. Furthermore, in H1FY22, the financial performance witnessed improvement as both volumes and realization increased across most of the products.

Satisfactory capital structure and debt protection matrices

KCIL's overall gearing has been comfortable due to high net worth at 0.20x as on March 31, 2021 albeit improvement marginally from 0.23x as on March 31, 2020. The improvement was due to decrease in term debts largely attributable to reduction in unsecured loan. Furthermore, the total debt/GCA improved significantly to 7x as on Mar'21 as against 20x as on Mar'20 mainly due to increase in cash profits 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 Rs.259 crore as on March 31, 2021 (Rs.258 crore as on March 31, 2020) accounting for 42% of its net-worth (42% in FY20). Further, KCIL has also extended corporate guarantee (outstanding guarantee of Rs.196 crore as on March 31, 2021; loan outstanding against such guarantee stood at Rs.131 crore) for loans availed by subsidiary companies. Around Rs.264 crore (including loan outstanding against corporate guarantee) exposure was in subsidiary KAT, whose performance although improved in FY21 but witnessed marginal moderation in H1FY22 owing to local issues in Ethiopia. Nonetheless, after successful implementation of resolution plan, it is expected that KAT will meet its debt repayment obligations from its own earnings and there will not require any further support from KCIL. This apart, financial performance of APAG Holdings AG, Switzerland has also started moderating in Q2FY22 mainly attributable to the shortage of semi-conductors. Nevertheless, 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 matrices for methanol. This makes KCIL's profitability susceptible to the volatile prices of methanol.

Liquidity: Adequate

Adequate liquidity position of the company marked by average of month end utilization of around 70% for the last twelve months ended October, 2021. Besides this, the company also relies on other short-term financing to fund its working capital needs. This apart, KCIL has already met its debt repayment obligations for the year H1FY22. Repayment of corporate guaranteed debt (KAT's debt) will start Q2FY23 as resolution plan has been successfully implemented. Going forward, on the back of improved GCA, it is expected that liquidity position of the company will remain adequate to meet the repayment obligations.

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (U/A)
Total operating income	369.43	395.00	295.46
PBILDT	16.97	35.56	34.67
PAT	-0.82	-3.67	12.70
Overall gearing (times)	0.23	0.20	0.19
Interest coverage (times)	1.40	2.85	7.28

A: Audited; U/A: Unaudited

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	65.00	CARE A2+
Fund-based - LT-Cash Credit	-	-	-	-	30.00	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	Nov,2027	83.33	CARE A-; Stable

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	Non-fund-based - ST-BG/LC	ST	65.00	CARE A2+	-	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-; 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)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	83.33	CARE A-; Stable	-	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: NA

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	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

Annexure 5: Bank Lender Details for this Company

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

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Anil More
Contact no.: 8444867144
Email ID: anil.more@careedge.in

Relationship Contact
Name: Lalit Sikaria
Contact no.: + 91-033- 40181600
Email ID: lalit.sikaria@careedge.in

About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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