The Kutch Salt And Allied Industries Limited

April 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	49.46 (Enhanced from 37.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	30.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn^
Total Bank Facilities	**79.46 (Rs. Seventy-Nine Crore and Forty-Six Lakhs Only)**		

Details of facilities in Annexure -1; ^OD against FD account converted into current account

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Kutch Salt And Allied Industries Limited (TKSAIL) continue to derive strength from experienced promoters with company being a part of 'Friends Group' having established track record of more than three decades in managing diversified businesses, location advantage of TKSAIL from operating at the Deendayal Port and long term lease of land used for salt production. The ratings also factor in its stable cash flows from renewable segment, healthy profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of growing albeit moderate scale of operations with moderate customer concentration, propensity of company to support other group entities, susceptibility of its profitability to climatic conditions and volatility in foreign exchange rates. The ratings are further constrained on account of its presence fragmented and competitive salt industry.

Rating Sensitivities

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

- Volume-based increase in scale of operations with TOI of more than Rs.300 crore while maintaining healthy profitability in salt business on sustained basis
- Improvement in capital structure with adjusted overall gearing below 0.75 times on sustained basis (based on adjusted Networth = Tangible net-worth less loans and advances to related parties)
- Reduction in gross current asset days leading to its operating cycle falling to around 120 days on sustained basis

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

- Decline in scale of operations to less than Rs.150 crore and moderation in profitability resulting in ROCE below 10%.
- Deterioration in the capital structure with adjusted overall gearing going above 1.50 times on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record of 'Friends group' across diversified business segments

Gandhidham-based (Gujarat) Friends group is promoted and managed by Singhvi family which includes Mr. Sukhraj Amarchand Singhvi, Mr. Babulal Amarchand Singhvi Mr. Tribhuvan Amarchand Singhvi and Mr. Ashok Amarchand Singhvi having experience of over two decades in industry. Friends group has a presence of more than three decades at Deendayal Port and is engaged across diversified business activities like manufacturing & trading of salt, cargo handling & other port related services, warehousing, liquid storage facility (tank terminals), renewable power generation, manufacturing of castor oil as well as other agro products and trading of various commodities. The Friends group is one of the leading salt producers and exporters and has more than 10 lakh square feet of warehousing capacity, around 6.40 lakh KLs of liquid storage tank terminal capacity (around 25% of the total privately owned operational liquid storage capacity at DPT) with capability to handle liquid chemicals, petroleum products & edible oil and cumulative renewable power generation capacity of more than 100 MW.

Location advantage of TKSAIL from operating at the Deendayal Port and long term lease of land used for salt production

India is the third largest producer of salt in the world. The top five salt-producing states in India are Gujarat, Tamil Nadu, Rajasthan, Maharashtra and Andhra Pradesh. Out of total production in India, Gujarat contributes around one fourth of India's total salt production, largely on account of arid climate and large land availability. TKSAIL is located near DPT, Kutch which is one of the major ports in Western India. Hence, TKSAIL's presence in the salt producing region as well as proximity to Kandla port results in benefit derived from lower logistic expenditure (both on transportation and storage) along with easy access to export customers.

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

The company had got allotted its 3891 acres of salt pans on an annual lease payment of Rs.14.25 crore and onetime security deposit of Rs.28.50 crore from DPT in 2017 (for 25 years). The salt pans acquired by the TKSAIL are on long term lease; providing long term revenue visibility. Manufacturing division (Salt) constituted around 73% of its total operation income (TOI) during FY21 (PY:91%).

Stable cash flows from renewable power segment
TKSAIL has invested in setting up renewable energy-based power generation projects i.e. Wind mills and Solar power plants during last few years with an aim of diversifying its revenue stream as well as a tax planning tool. TKSAIL had total installed capacity of 15.60 MW for wind-based power generation and 2.00 MW for Solar as on December 31, 2021. The windmills are located at Rajasthan and Gujarat whereas solar plant is located in Gujarat. TKSAIL has signed long term PPAs with respective state utilities (Rajasthan and Gujarat) for sale of power for tenure up to 20 years. The total income earned from the renewable segment remained at Rs.10.31 crore in FY21. Further during January 2022 company has availed new term loan of Rs.14 crore for setting up 4MW solar plant at total project cost of Rs.17.50 crore (approx.).

Healthy profitability
With increase in trading sales proportion coupled with net loss reported on trading of rapeseed, profitability of the company reduced though continued to remain healthy marked by PBILTD margin and PAT margin of 33.54% and 21.30% respectively in FY21 as compared to 47.63% and 28.37% in FY20. In 9MFY22, profitability margins of the company further moderated owing to significant increase in trading sales proportion and incremental freight cost, however, margins continued to remain healthy marked by PBILDT margin and PAT margin of 23.33% and 15.01% respectively.

Comfortable capital structure and debt coverage indicators
TKSAIL's overall gearing ratio marginally improved and remained comfortable at 0.41 times as on March 31, 2021 (0.69 times as on March 31, 2020) on the back of decrease in term debt with scheduled repayments and increase in net worth base owing to accretion of profits into reserves. Consequently, TOL/TNW improved marginally and remained comfortable at 0.57 times as on March 31, 2021. TKSAIL's overall gearing continued to remain comfortable at 0.34 times as on December 31, 2021 (Prov.).
Debt coverage indicators of the company also remained comfortable marked by interest coverage ratio of 14.47 times and total debt / GCA of 1.29 times in the year ended on March 31, 2021.

Key Rating Weaknesses
Growing albeit moderate scale of operations with moderate customer concentration
Over last five years the scale of operations of TKSIL has grew at a CAGR of 22% primarily due to direct exports of salt by TKSAIL which was earlier done through other group entity and trading sales. During FY21, TKSAIL reported 19% Y-o-Y growth in its TOI to Rs. 219.94 crore as the company undertook trading sales of rapeseed to the tune of Rs.47.76 crore in FY21 [PY: Nil]. Moreover, TKSAIL's TOI further grew to Rs.226.30 crore in 9MFY22 owing to further increase in trading sales to Rs.79.92 crore. During FY21, customer concentrating decreased over the previous year, but remained moderate as sales to top five customers for 53% of TOI in FY21 (FY20: 92%).

Susceptibility of profitability to climatic conditions and presence in the highly fragmented salt industry
The salt industry is highly fragmented with presence of numerous regional and unorganized players. Further, the business is seasonal and highly dependent on weather conditions and remains exposed to natural calamity. Salt business was affected in the past due to natural calamity in the Kandla region and reduced export sale business. However, TKSAIL derives benefit on account of its strategic location in terms of suitability of land and its proximity to DPT.

Exposure to volatility in foreign exchange rates
With increased sales of the TKSAIL by way of exports, exposes the company to risk of adverse movement in foreign exchange rates. In absence of any active hedging policy, TKSAIL remains exposed to foreign exchange fluctuation risk. The healthy operating profitability allows TKSAIL to absorb the effect of anticipated volatility in forex rates. However, being an export entity, and current market scenario of Rupee depreciation, it will further push profitability in near future.

Propensity to support the group entities
With salt export business of Friends group having healthy cashflows being undertaken in TKSAIL, it provides need-based support to group concerns in form of loans and advances. As on March 31, 2021 loans and advances extended to related parties stood at Rs.71.10 crore (PY:48.71 crore). Adjusted overall gearing (adjusted Networth = Tangible net-worth less loans and advances to related parties) also remained comfortable at 0.74 times as on March 31, 2021 [PY:1.19 times].

Liquidity: Adequate
Liquidity of TKSAIL remain adequate marked by moderate utilization of its working capital limits and healthy gross cash accruals against low debt repayment obligations and moderate liquidity ratios and cash flow from operations (CFO). The average utilization of fund based working capital remained at around 70% in last 12 months ended in February 28, 2022. Further, current ratio of TKSAIL remained at 3.49 times as on March 31, 2021 (PY: 2.66 times). With significant improvement in scale of operations (considering averaging impact in calculation) and lower outstanding of finished goods inventory (salt); operating cycle shortened significantly from 236 days in FY20 to 91 days in FY21. Apart from free cash and bank balance of Rs.31.20 crore, TKSAIL has fixed deposits (lien marked) amounting to Rs.3.95 crore as on March 31, 2021. TKSAIL's CFO continued to

remain moderate at Rs.67.61 crore. Going forward, it is expected that business will generate healthy cash accruals of Rs.50 -55 crore as against low repayment of Rs.10 -15 crore during same period.

Analytical approach: Standalone while factoring in linkage in form of company being a part of 'Friends group' of Gandhidham, Gujarat

Applicable Criteria:
Policy on Withdrawal of ratings
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company:
Incorporated in 1950 as a limited company, TKSAIL (CIN: L24238MH1950PLC008313) is a part of Friends Group based out of Gandhidham, Gujarat. TKSAIL is engaged in the business of raw salt production which it carries out on lease hold land of 3891 acres at Kandla obtained from Deendayal Port Trust (DPT). TKSAIL also has aggregate wind power generation capacity of 15.60 MW and solar power generation capacity of 2 MW as on December 31, 2021.

Brief Financials (in Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	185.13	219.94	226.30
PBILDT	88.18	73.77	52.79
PAT	52.53	46.86	33.97
Overall gearing (times)	0.69	0.41	0.34
Adjusted overall gearing (times)#	1.19	0.74	0.48
PBILDT Interest coverage (times)	11.98	14.47	15.44

A: Audited; UA: Unaudited, # adjusted Networth = Tangible net-worth less loans and advances to related parties

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 facility: Detailed explanation of covenants of the rated 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
Fund-based - LT-Bank Overdraft	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	July, 2033	30.66	CARE BBB; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	30.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	-	March, 2025	18.80	CARE BBB; 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	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)
2	Fund-based - LT-Term Loan	LT	30.66	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)
3	Fund-based - LT/ ST-EPC/PSC	LT/ ST*	30.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (31-Mar-21) 2)CARE BBB-; Stable / CARE A3 (01-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)
4	Fund-based - LT-Term Loan	LT	18.80	CARE BBB; Stable	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BBB (SO); Negative (05-Apr-19)	1)CARE BBB+ (SO); Stable (06-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants		
Ratios	Current Ratio	>=1.30 times
	TOL/TNW	<=2 times
	DSCR	>=1.50 times
	Interest Coverage	>=3.00 times
B. Non financial covenants		
Prior approval of bank	For any change in capital structure of company or implementation of scheme of amalgamation/ reconstruction	

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-EPC/PSC	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 instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careedge.in

Analyst Contact
Group Head Name: Mr. Akhil Goyal
Group Head Contact no.: +91-85111 90015
Group Head Email ID: akhil.goyal@careedge.in

Relationship Contact
Name: Mr. Deepak Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

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