Kesar Petroproducts Limited

February 09, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	-	-	Revised to CARE BB; Stable (Double B; Outlook: Stable) from CARE BB+; Stable (Double B Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Revised to CARE A4 (A Four) from CARE A4+ (A Four Plus) and Withdrawn
Total Bank Facilities	**0.00 (Rs. Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reviewed and revised the rating assigned to the bank facilities of Kesar Petroproducts Limited to CARE BB; Stable/ CARE A4 and has simultaneously withdrawn it, with immediate effect. Revision in the ratings factor in decline in total operating income, profit margins, deterioration in debt coverage indicators in FY20. Ratings continue to be constrained by its small scale of operation, moderate profit margins and debt coverage indicators and susceptibility of margins to volatile raw material prices, its presence in a highly fragmented and competitive industry.

Further ratings continued to derive strength from its long track record of operation with experienced promoters, established relationship with reputed clientele, comfortable capital structure and adequate liquidity position.

The rating withdrawal is at the request of Kesar Petroproducts Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale operations: The company's total operating income declined to Rs. 130.75 crore in FY20 (vis-à-vis Rs.156.16 crore in FY19) owing to decline in order execution in FY20. Further company has achieved total operating income of Rs. 48.97 crore in H1FY21 vis-à-vis Rs. 64.80 crore in H1FY20.

Moderate profit margins and losses incurred in FY20 and susceptible to fluctuations in the raw material prices: KPL's PBILDT margin declined significantly and stood at 0.27% in FY20 (from 2.21% in FY19) on account of decline in sales in FY20. Company's PBILDT margin stood at 6.37% in H1FY21 vis-à-vis 6.44% in H1FY20. However company reported net loss of Rs. 2.61 crore in FY20 vis-à-vis net loss of Rs. 0.32 crore in FY19 due to decline in operating margin coupled with high interest and depreciation cost.

Company reported net profit of Rs. 0.01 crore in H1FY21 vis-à-vis net loss of Rs. 0.02 crore in H1FY20. Profit margins are vulnerable to the changes in the raw material prices as raw material is the major cost driver and the prices of the same are volatile in nature as it is directly linked to the prices of crude oil which is highly volatile by nature therefore cost base remains exposed to any adverse price fluctuation in the prices of the raw material.

Moderate debt coverage indicators: Debt coverage indicators marked by interest coverage ratio and total debt to GCA deteriorated due to net loss incurred in FY20.However as confirmed with banker there are no delays in debt servicing.

Moderately working capital intensive nature of operation: Operations of the company continue to remain working capital intensive mainly on account of major funds being blocked in receivables (avg. debtor's period is 65 days in FY20) as company gives two months credit period to its customers in light of intense competition prevalent in the industry coupled with its low bargaining power against reputed players.

Furthermore, company has to keep stock of raw material inventory to execute orders on timely manner which led to moderate inventory period of 60 days for FY20. However company gets credit period of two months from its suppliers which resulted in average creditor's period of 64 days in FY20. Therefore operations remain moderately working capital intensive with working capital cycle period of 62 days in FY20 however, utilization of working capital limits (of Rs. 10 crore) remained nil for the past 12 months ended December, 2020. Company is managing its working capital requirement through internal accruals.

Presence in competitive and fragmented chemical industry: KPL operates in a highly competitive industry with many players operating in the field of chemical manufacturing. Furthermore, the competition is increasing as along with small players the medium and large players in the industry are also penetrating the market which further creating the pressure on profit margins and lead to low bargaining power against the reputed customers.

Key Rating Strengths

Experienced management with long track record of operations: KPL has been in the chemical industry for more than two decades and over the years of its operations it has developed long standing relationships with customers and suppliers as reflected by the continuous receipt of orders on year on year basis. KPL is promoted by Sharma family with Chairman Mr. Dinesh Sharma and other directors Mr. Mohit Kaushik, Mr. Nazirsaheb Sayyed, Ms. Shehlata Sharma and Mr. K. D. Fatnani who have more than two decade of experience in chemical industry. Furthermore, the directors are further assisted by the experienced management team to carry out the day-to-day operations.

Reputed clientele: The company's clients comprise some of the most prominent downstream users in the inks, rubber, plastic, textile and paint sectors namely Sudarshan Chemicals Industries Limited, Jaysynth Dyestuff (I) Limited, Unilex Colours & Chemicals Limited, etc. and due to the long standing relationship with the clients, it is able to receive repeated orders.

Comfortable capital structure: Company's capital structure continued to remain comfortable and capital structure remained at same level of 0.15x as on March 31, 2020 and March 31, 2019. Further overall gearing remained at 0.05x as on September 30, 2020 vis-à-vis 0.06x as on September 30, 2019.

Liquidity position: Adequate

KPL's current ratio remained at 2.42 times and quick ratio at 1.86 times as on March 31, 2020 vis-à-vis current ratio of 2.69x and quick ratio of 1.91x as on March 31, 2019. Further, company has free cash and bank balance of Rs. 8.37 crore as on March 31, 2020 and Rs. 0.04 crore has current investment in mutual funds of Rs. 1.29 crore as on March 31, 2020 vis-à-vis Rs.1.35 crore on March 31, 2019. Company had not availed moratorium facility provided by RBI under Covid-19 pandemic situation.

Analytical approach: Standalone

Applicable Criteria

Policy on Withdrawal of ratings
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – manufacturing Companies
CARE's Methodology for Short-term Instruments
Financial ratios – Non-Financial Sector

About the Company

Kesar Pertoproducts Limited (KPL) was incorporated in 1990 by Mr. M C Bagrodia, which was engaged in manufacturing of chemical products. Later in 2008, KPL was brought by Sharma Family and currently it is engaged in manufacturing of pigments i.e. CPC blue crude, Alpha Blue and beta blue and dye intermediates i.e. K-acid, Gamma acid, Vinyl sulphonate and sulpho VS which find its application in ink, paint, textiles and plastic coating. KPL has its corporate office in Mumbai and seven manufacturing units in Lote Parshuram, Ratnagiri.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21
Total operating income	156.16	130.75	48.97
PBILDT	3.46	0.35	3.12
PAT	-0.32	-2.61	0.01
Overall gearing (times)	0.15	0.15	0.05
Interest coverage (times)	3.15	0.38	16.42

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Stable (22-Nov-19) 2)CARE BB+; Stable (10-Jun-19)	1)CARE BBB-; Negative (25-Feb-19) 2)CARE BBB-; Stable (25-Sep-18)	-
2.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4+ (22-Nov-19) 2)CARE A4+ (10-Jun-19)	1)CARE A3 (25-Feb-19) 2)CARE A3 (25-Sep-18)	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	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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