Kriti Nutrients Limited

September 16, 2022

Rating/Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	22.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Short Term Bank Facilities	2.40	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**24.40 (₹ Twenty-Four Crore and Forty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Kriti Nutrients Limited (KNL) continue to derive strength from its experienced promoters and established track record of operation in solvent extraction and edible oil industry having diversified product portfolio with strong presence in the branded refined oil segment and established marketing network in central India. The ratings also derive strength from its growing albeit moderate scale of operations, comfortable capital structure, strong debt coverage indicators, lean operating cycle and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate profitability which declined during FY22 (FY refers to the period from April 1 to March 31) and Q1FY23, presence in the competitive refined oil and solvent extraction industry, seasonality associated with availability of soya seeds and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuations. The ratings also factors' in significant increase in loans and advances given to its group company which is expected to reduce in FY23.

Rating sensitivities

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

- Increase in scale of operation with TOI of over Rs.1000 crore though greater geographical and product diversification on sustained basis.
- Improvement in profitability with PBILDT margin of over 8% on a sustained basis through greater share of value-added products or deeper brand penetration.

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

- Decline in scale of operations with TOI falling below Rs.500 crore and PBILDT margin below 3% on sustained basis.
- Any major debt funded capex and/or increase in working capital intensity of its operations resulting in overall gearing over 1 time on sustained basis.
- Any loans and advances to related parties, higher than 25% of KNL's networth impacting its liquidity/leverage position.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Experienced promoters and reputed board members and established

Mr. Shiv Singh Mehta looks after overall operations of KNL in the capacity of Chairman and Managing Director. He is a qualified engineer and also holds master degree in business administration with an experience of more than two decades in the oil seed extraction and oil refining business. Mr. Shiv Singh Mehta is assisted by his son Mr. Saurabh Singh Mehta in the capacity of Whole-time Director and his wife Mrs. Purnima Mehta (Non-Executive) in the overall functioning of the company. This apart, KNL's board also includes renowned independent director viz. Mr. Rakesh Kalra (Ex. MD of Eicher Motors Limits), Mr. Manoj Fadnis (Ex-President of Institute of Chartered Accountant 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 Industries Limited (KIL; rated CARE BBB+; Negative/CARE A2) is engaged in the business of manufacturing of the plastic pipes, ducts and mouldings at its manufacturing facility located in Madhya Pradesh.

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

Established operations with Diversified product portfolio and strong presence in branded refined oil segment albeit concentrated geographical presence

KNL has diversified product portfolio which includes refined oil (majorly Soyabean refined oil), Soya de-oiled cake (DOC), lecithin, value added product like Soya flakes, soya grits, soya flour and other soya-based products (soya chhilka, soya acid oil, Soya HI-pro). During FY22, the KNL derived nearly 75% (FY21: 69%) of its net sales from refined oil, 20% from soya meal (FY21: 26%), 3% from lecithin (FY21: 3%) and balance 2% from other products (FY21: 2%). KNL has a network of around more than 200 dealers and products of the company are available across 20,000 retail outlets; albeit with major focus in Central India.

KNL has an established track record of over two decades in the solvent extraction and edible oil refining business. Its refined oil sales (in value terms) grew at a CAGR of ~17% in last five years ended as on March 31, 2022. KNL's edible oil brand 'Kriti' is well-known in central India's retail market (particularly Madhya Pradesh), due to which its refined oil is entirely sold in retail premium segment with no bulk sales. Though, KNL has presence in 17 states, majority of its domestic sales are mainly concentrated in the state of Madhya Pradesh (~84% during FY22). Further ~12% is contributed by Gujarat and the remaining 4% is distributed by rest of the states. Apart from refined oil, KNL also manufactures soya meal which includes soya-based value-added products such as soya hi-pro, soya flakes, soya grits and soya flour among others. KNL largely exports its soya value added products. However, exports had shown decline in FY22 due to high prices of soyabean in domestic market impacting export competitiveness of domestic players.

Growing albeit moderate scale of operations

TOI of KNL grew by 9.30% from Rs.690.56 crore in FY21 to Rs.754.79 crore in FY22 on the back of growth in sales realization across product categories due to increase in the raw material prices. Total soyabean crushing dropped back to pre-covid levels during FY22. Growth in the sales of soya meal and refined oil during FY22 was driven by the significant increase in the avg. realization of different products with increase in raw material prices. Overall sales volume of refined oil decreased during FY22 as compared to FY21 with overall lower demand in Q1FY22 over Q1FY21 which was exceptional in first wave of covid. Sales realizations had increased with increase in in prices of oil during FY22 with overall supply disruption in edible oil industry due to export ban on palm oil by Indonesia, Ukraine war and, labour shortages in palm oil plantation in Indonesia & Malaysia, lower production of beans in South America due to adverse weather conditions and global supply chain issues.

Comfortable leverage and strong debt coverage indicators

Capital structure of KNL remained comfortable on the back of low debt level and steady accretion of the profit to the net-worth base of the company. As on March 31, 2022 overall gearing stood at 0.34x as against 0.04x as on March 31, 2021 which moderated on account of increase in Total debt to 37.56 as on March 31, 2022 as the company has taken warehousing loan of Rs. 35 crore for inventory and had extended loans and advances to its group company (KIL) which stood at Rs.24 crore as on March 31, 2022 as compared with Rs.10 crore as on March 31, 2021. As articulated by management same is for short term purpose for inventory funding at KIL with Q1 being the main season in agri pipes industry and going forward only surplus cash accruals could be deployed in KIL and out of this, Rs. 14 crore is expected to return by end of FY23. The loans and advances forms ~21% of the T. net-worth of the KNL as on March 31, 2022.

KNL doesn't have any term debt repayment obligation. Overall debt coverage indicators remained strong marked by TDGCA and PBILDT interest coverage ratio of 2.35 times and 10 times respectively in FY22. Same is expected to continue in medium terms with no major debt funded capex planned.

Key rating weaknesses

Moderate profitability which declined during FY22 and Q1FY23

PBILDT margin of KNL remained moderate and exhibited a declining trend in FY21 and FY22 due to increase in input cost mainly soya seed prices which company was not able to pass on to its customers fully especially in soya meal segment. Also, higher base impact has also impacted margin to an extent in percentage terms. In refining spread there was contraction with increasing competition and cost pressures in form of higher coal prices (fuel costs) and higher freight costs. PAT margin too declined in line with the moderation at the PBILDT level during FY22. Overall GCA had remained moderate at Rs.16 crore in FY22.

Despite moderation, KNL consistently maintained healthy return indicators marked by ROCE and RONW of 14.38% and 11.67% during FY22, however same had declined over FY21.

In Q1FY23, KNL had reported TOI of Rs.193.75 crore with PBILDT margin of 2.49% amidst various challenges enumerated above. However, same is expected to improve with reduction in commodity prices and strong domestic demand.

Competitive industry landscape albeit stable industry outlook

The edible oil industry is highly competitive with presence of both large national players and multiple regional players. Along with logistics and supply chain capability, the large integrated players have a sizeable oil processing and packaging scale with wide

distribution network. Thus, profitability is inherently low and is further exposed to movement in prices of raw material, finished goods and other substitute. Being part of a highly fragmented industry (refined oil as well as soyameal), KNL faces intense pricing competition, and hence, cannot fully pass on the price increases to its customers in case of sharp movement in the raw material price in short duration, thereby constraining its profitability.
However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase which bodes well for branded refined oil players.
India is one of the major soya seed producing countries with fair share in exports of soya meal. However, there was significant decline in the soya meal export from India during FY22 due to higher domestic soyabean prices and higher freight costs. Going forward with expected reduction in soyabean prices with arrival of new crop soyameal industry is recover in H2FY23.

Seasonal availability of raw material and risk related to agriculture commodity risk as well as government regulation
Crude soya oil and soya bean seeds are the main raw material for KNL. Soyabean seeds are purchased locally from farmers and local mandis whereas it purchases crude soyabean oil in bulk from various importers. Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from mandis in Madhya Pradesh whose prices remains volatile in nature which depends upon the rainfall, area under cultivation, international demand-supply as well as government policy (minimum support price). Minimum support price (MSP) of Soyabean for Khariff 2022-23 was increased from Rs.3950 per qunital to Rs.4300 per quintal. KNL's requirement of working capital is also influenced by the seasonal availability and quality of soya bean seeds, which is generally high during the peak season.
Prices of soyabean seeds depend on various factors like demand-supply dynamics, government policy like minimum support price, crop pattern, rainfall, area under cultivation. Prices also reflect the international demand-supply gap and weather conditions in major soya growing nations such as USA, Brazil, China, India and Argentina. Crude edible oil prices are also influenced by cost of import, as well as regulatory policy (import/export duty) and price differential among other edible oil alternatives.

Exposure to volatility in raw material prices, forex rates and regulatory changes albeit sound risk management practices followed by the management
Crude soya oil and soya bean seeds are the main raw material for KNL whose price remained volatile. Such sudden movement in the price along with fixed tenure of the contract affects the profitability of the KNL. Currently, KNL has contract tenure of around 3 months for soya meal for its customers.
KNL derives nearly 10-20% of its revenue from exports whereas the import on the other side is negligible. Hence, KNL is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates. However, the company enters into forward contracts for hedging foreign exchange exposure against its exports as per market situation. Un-hedged foreign currency exposure was Rs.6.09 crore as on June 30, 2022. During FY22, KNL doesn't have any exposure hedged through commodity derivatives. However, over the years management has practiced the sound inventory management policy with low inventory levels.

Liquidity: Adequate
The operating cycle of KNL remained lean at 24 days during FY22 which is the same as FY21. KNL has adequate liquidity supported by healthy cash accruals with absence of any scheduled term debt repayments obligations and cushion available from un-utilized working capital limits with the average fund based working capital utilizations level remained low at 36.35% for past 12 months ended July 2022. Current ratio and quick ratio stood at 2.07x and 1.01x respectively as on March 31, 2022. Cash flow from operation was Rs.15.69 crore during FY21 as against negative CFO of Rs.35.59 crore during FY22, which is due to increase in inventory levels and increase in loans and advances given which was funded by warehousing loan availed by company for Rs.35 crore. KNL had cash and bank balance of Rs.4.08 crore along with fixed deposit of Rs.2 crore (not lien marked) as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
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

Promoted by Mr. Shiv Singh Mehta, KNL (CIN: L24132MP1996PLC011245) is primarily engaged in the manufacturing of refined soya edible oil and soya bean based value added products. The main products of KNL include branded refined soya oil, soya De-Oiled Cake (DOC)/ soya meal, soya flakes, soya grits, soya floor and soya lecithin. KNL sells its refined edible oil under the brand 'Kriti' which is an established name in Central India. KNL's manufacturing facilities are located at Dewas, Madhya Pradesh (MP) with a solvent extraction capacity of 360,000 metric tonne per annum (MTPA) and oil refining capacity of 60,000 MTPA as on June 30, 2022. KNL was de-merged in January 2010 from Kriti Industries (India) Limited (KIL). KIL had two divisions before the demerger, viz, edible oil & solvent extraction along with plastic fittings & engineered auto components. The plastic fittings & engineered auto components division continues to remain with KIL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (Published)
Total operating income	690.56	754.79	193.75
PBILDT	22.70	21.28	4.83
PAT	15.06	12.31	2.08
Overall gearing (times)	0.04	0.34	NA
Interest coverage (times)	24.19	10.11	6.53

A: Audited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	22.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.40	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	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	22.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (05-Oct-21)	1)CARE A-; Stable / CARE A2+ (06-Oct-20)	1)CARE BBB+; Positive / CARE A2 (01-Oct-19)
2	Non-fund-based - ST-Credit Exposure Limit	ST	2.40	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2+ (06-Oct-20)	1)CARE A2 (01-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Credit Exposure Limit	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.

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About us:
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