KPL International Limited

August 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.63 (Reduced from 65.89)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	130.00 (Enhanced from 100.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**185.63 (₹ One Hundred Eighty-Five Crore and Sixty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the long-term ratings assigned to the bank facilities of KPL International Limited (KPL) factors in substantial improvement in operating performance of the company during FY22 (refers to the period from April 01, 2021 to March 31, 2022) despite logistical challenges due to pandemic led disruptions, marked by uptick in demand of chemicals and the resultant improvement in sales realization along with continued higher proportion of free cash flows from indenting/ commissioning business and power segment. The ratings continue to derive strength from experienced promoters, diversified service offering with wide array of products in the chemicals segment, diverse and reputed supplier base, and comfortable financial risk profile marked by low overall gearing and healthy debt coverage indicators. These rating strengths, however, are partially offset by exposure of the company towards credit risk profile of its customers, foreign exchange rate fluctuations risk, susceptibility of the profitability margins towards volatility in goods prices traded by the company and competitive nature of industry.

Rating sensitivities

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

- Sustained improvement in scale of operations above Rs.900 crore with PBILDT margin above 12% on a sustained basis.
- Improvement in ROCE above 25% on a sustained basis.

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

- Deterioration in scale of operations with PBILDT margin below 6% on a sustained basis.
- Elongation in operating cycle and weakening of liquidity position and overall gearing above 0.60x.

Detailed description of the key rating drivers

Key rating strengths

Improvement in operational performance in FY22: The total operating income of the company grew by 36.52% to Rs.529.41 crore in FY22 (PY: Rs.387.80 crore) driven by increase in revenue contribution from distribution of chemicals. The PBILDT margin of the company improved substantially to 13.16% in FY22 (PY: 8.30%) on account of various reasons including higher net sales realization on chemicals due to improved demand scenario and higher proportion of revenue booked from sale of paint and coatings division on which PBILDT margin for the company is relatively higher. The company acts as a distribution and marketing agent for its key principals and offers wide range of services including handling logistics, customs clearance and warehouse facility. The PAT margin of the company improved to 9.06% in FY22 (PY: 3.25%) due to improvement in the PBILDT margin and exceptional income to the tune of Rs.4.36 crore booked by the company in FY22 as profit on sale of Avongrove tea estate. During Q1FY23 (refers to the period from April 01, 2022 to June 30, 2022, the total operating income of the company grew by 47.22% to Rs.158.60 crore (PY: Rs.107.73 crore). In terms of profitability, the PBILDT margin of the company improved further to 15.71 % (PY: 11.85%) on account of increase in scale of operations leading to decrease in fixed costs such as employee salaries and rental expense as a percentage of total operating income in Q1FY23. The same has led to improvement in the PAT margin to 10.71% in Q1FY23 (PY: 7.02%).

Experienced promoters: KPL belongs to the Kanoria Group and the promoters of KPL have interest in the fields of chemicals, electronic automotive, textiles and jute with Mr. R.V. Kanoria (son of Late S. S. Kanoria) (Chairman) and Mr. Surinder Kumar Kak (Managing Director), taking care of day-to-day affairs of the company. Mr. R.V. Kanoria is an MBA from IMD, Switzerland, and a Diploma holder in Advanced Management Programme from Wharton, USA and possesses over three decades of business experience. The promoters are supported by experienced team of professionals who manage the day to day operations of the company. Other companies that belong to Kanoria group are Kanoria Chemicals and Industries Limited (rated CARE A-; Stable/CARE A2+) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Limited (rated CARE A-; Stable/CARE A2+) engaged in manufacturing of jute products.

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

Diverse revenue stream with wide array of products in chemicals trading segment trading segment: Though KPL is majorly into trading of chemicals, polymers and speciality chemicals (comprising ~89% of the total operating income in FY22), the company also has diversified businesses like commission based indenting business of specific products (comprising ~4% of the total operating income in FY22), and generation and selling of renewable power (comprising ~3% of the total operating income in FY22). However, in terms of profitability, ~68% of the total PBILDT reported by the company in FY22 was contributed from trading of chemicals and manufacturing of industrial gases, ~15% from indenting business, and remaining ~17% from generation and selling of power. The company deals in trading of more than 1000 chemicals/ chemical products (polymers, speciality chemicals, fluorine and fine chemicals, paper and performance chemicals) and engineering products in its repertoire having applications in various industries such as tyre manufacturing (rubber) industry, paint industry, plastic industry, dyes and intermediaries, glass industry, pharmaceutical industry, paper industry, agro, cement and various other industries.

Diverse and reputed supplier base: KPL procures most of its goods from foreign market and top 5 suppliers of the company constituted around 49% of total goods purchased by the company in FY22 (around 61% in FY21). Some of the reputed suppliers associated with KPL include names such as BASF, Sasol, Budenheium, and Solvay etc. KPL is representative of their suppliers for selling their specific set of products in Indian market. Further, KPL has a broad customer base as evident by top 5 customers forming only ~12% of the total sales of the company from trading business in FY22 (PY: ~14%).

Stable source of revenue generation from renewable power generation: The company also has a stable source of revenue from wind power projects of capacity 15.35 MW, and has a long term PPA signed with GUVNL (Gujarat Urja Vikas Nigam Limited, rated CARE AA; Stable/ A1+) and MSEDCL (Maharashtra State Electricity Distribution Company Limited). Out of 15.35 MW capacity, 14.10 MW of power plant are in the state of Gujarat. Long term PPA with GUVNL at a fixed tariff limits its off-take risk. Further, KPL also has a 1.25 MW power plant in Sangli, Maharashtra with PPA signed with MSEDCL (Maharashtra State Electricity Distribution Company Limited) in June, 2022 with a tenor of 12 years. During FY22, KPL generated total revenue of Rs.16.47 crore (PY: Rs.11.90 crore) from wind power plants.

Comfortable financial risk profile: The capital structure of the company remains comfortable as reflected by overall gearing of 0.18x as on March 31, 2022 (PY: 0.29x). Debt profile of the company as on March 31, 2022 comprises of term loans to the tune of Rs.15.28 crore (~53% of total debt), working capital borrowings to the tune of Rs.9.82 crore (out of sanction limit of Rs.43.00 crore) (~34% of total debt), and L.C. Acceptance of Rs.3.81 crore (~13% of total debt). Debt coverage indicators of the company have improved further as reflected by PBILDT interest coverage ratio of 31.54x (PY: 7.73x) and total debt/GCA of 0.41x (PY: 0.98x) in FY22.

Key rating weaknesses

Exposure of KPL to credit risk profile of its customers: Due to absence of any fixed contract and allowing of credit period of 45-60 days to its customers, KPL is also exposed to credit risk profile of its customers. Any change in the risk profile of its customers may adversely impact company's collections/operational cash flow. Company has reported bad debts to the tune of Rs.0.05 Crore during FY22 (PY: Rs.0.11 crore). Trade receivables of the company stood at Rs.80.77 crore as on March 31, 2022, out of which Rs.11.04 crore were from related parties (Rs.57.17 crore as on March 31, 2021 out of which Rs.0.10 crore were from related parties).

Susceptibility to volatility in goods prices (stock holding risk): KPL imports majority of the chemicals and maintains inventory based on past demand of its clients. The company stocks goods for the expected order of around 2 months in advance and sells goods as per the demand from its customers. The market price of the chemicals distributed by the company remains volatile and fluctuates in accordance with the crude oil prices for majority of products traded by company. Thus, the company is exposed to volatility in the prices of the traded goods and any adverse movement in the price of traded goods by the company may have a negative impact on the profitability margins of the company. However, the company has able to pass on any increase in the cost of traded goods to its customers for the majority of sales. Also, the company deals in the high sea sales (order backed procurement and selling) and the commissioning of goods which mitigates the price volatility risk of traded products to some extent.

Exposure to foreign currency fluctuation risk: The company is exposed to foreign currency fluctuation risk as the company procures majority of goods from foreign markets (~90%) and sells majority of goods in domestic market (more than 90%). So, any adverse movement in the foreign currency w.r.t. rupee can impact the profitability of the company. However, the company covers the foreign currency fluctuation risk by entering into forwards/ futures contracts against the entire imports of traded goods (the premium of Rs.1.48 crore in FY22, Rs.1.36 crore in FY21 and Rs.1.63 crore in FY20 was paid by the company to enter into contracts). Further, during FY19, KPL had entered into Swap agreement for conversion of rupee term loan into Euro loan. As a result, KPL is also exposed to forex risk on account of its exposure in Euro term loan (interest and repayments) and any adverse movement of Euro w.r.t. rupee can affect the financial risk profile of the company but company is also booking commissioning income in foreign currency, which provides natural hedge and offsets this risk. KPL had booked a net forex loss of Rs.0.39 crore in FY22 as against gain of Rs.0.63 crore in FY21.

Volatile and Competitive nature of Industry: The prices of chemicals and polymers traded by the company are volatile in nature and are linked to production in domestic market and global demand-supply situation. The prices of chemicals traded are linked with the prices of crude oil in international market which remains volatile and are also affected by the changes in government regulations. Moreover, presence of various players in the chemicals trading business (both organized and unorganized) intensifies the competition in the industry.

Liquidity: Adequate – The liquidity profile of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.52.97 crore in FY23 against scheduled term loan repayment of Rs.9.54 crore in FY23. Further, the average utilization of working capital borrowings stood low at 4.37% for the trailing 12 months ended July, 2022. KPL has liquid mutual fund investments and investment in venture capital fund (quoted at market value) to the tune of ~Rs.36.11 crore as on June 30, 2022. The company is projected to incur an investment of ~Rs.45.00 crore (~29% of tangible net-worth as on March 31, 2022) as equity (~46% ownership) in the next 18 - 24 months. The said investment is in the company Fytomax Nutrition Private Limited (FNPL) which plans to start manufacturing of Soy Protein Isolate (SPI). The commercial operations of the same are expected to commence in 2023. KPL shall fund the investment through liquidation of investments (quoted at market value of Rs.36.11 crore as on June 30, 2022) and remaining from internal accruals.

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
Wholesale Trading
Wind Power Projects

About the company
KPL international Limited is majorly into distribution and marketing of quality products such as chemicals, polymers, paper and paper chemicals, industrial gases (Refrigerant Gas) in India sourced globally. Over the years, KPL has expanded its services to cover engineering products like brazing alloys that have high end application in automotive and aerospace industries for supply to companies across India. However, major chunk of revenue of company comes from the trading of chemical and chemical related products (~89% of total operating income in FY22). Further, as a part of diversification plans, the company also forayed into renewable energy sector with generation capacity of 15.35 MW wind turbine electrical power. KPL belongs to S. S. Kanoria Group with major group companies belonging to group are Kanoria Chemicals and Industries Limited (rated CARE A-; Stable/CARE A2+) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Ltd. (rated CARE A-; Stable/CARE A2+) engaged in manufacturing and selling of jute products.

Brief Financials (₹ crore)	FY21 (A)	FY22(P)	Q1FY23 (P)
Total operating income	387.80	529.41	158.60
PBILDT	32.18	69.69	24.92
PAT	12.60	47.98	16.98
Overall gearing (times)	0.29	0.18	0.21
Interest coverage (times)	7.34	31.54	92.30

A: Audited, P: Provisional

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
Term Loan-Long Term		-	-	September, 2023	12.63	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	43.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	110.00	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	20.00	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	Term Loan-Long Term	LT	12.63	CARE A-; Stable	-	1)CARE BBB+; Stable (25-Aug-21)	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (15-Nov-19)
2	Fund-based - LT-Cash Credit	LT	43.00	CARE A-; Stable	-	1)CARE BBB+; Stable (25-Aug-21)	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (15-Nov-19)
3	Non-fund-based - ST-BG/LC	ST	110.00	CARE A2+	-	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (30-Sep-20)	1)CARE A2+ (15-Nov-19)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (30-Sep-20)	-

*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-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	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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