Kriti Industries (India) Limited (Revised)

November 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	69.47 (Reduced from 71.25)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Long Term / Short Term Bank Facilities	155.00 (Enhanced from 130.00)	CARE BBB; Stable / CARE A3+ (Triple B ; Stable/ A Three plus)	Revised from CARE BBB+; Negative/ CARE A2 (Triple B Plus; Outlook: Negative/ A Two)
Short Term Bank Facilities	4.50	CARE A3+ (A Three plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	**228.97 (₹ Two Hundred Twenty-Eight Crore and Ninety-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Kriti Industries (India) Limited (KIL) takes into consideration higher than envisaged losses in Q2FY23 (FY refers to the period from April 1 to March 31) on back of inventory losses with significant decline in PVC resin prices and expectation of lower profitability for FY23 leading to deterioration in capital structure and debt coverage indicators, however, takes comfort from good demand prospects in industry.

The ratings, however, continue to derive strength from the vast experience of its promoters, established operations in plastic pipes and fittings industry, its widespread distribution network with diversified clientele and moderate scale of operations which grew on y-o-y basis. The ratings also factor KIL's adequate liquidity and stable demand outlook for plastic pipes industry.

The ratings, however, continue to remain constrained due to its deteriorated capital structure, large working capital requirements, seasonality associated with demand for KIL's products and presence in a highly competitive plastic pipes manufacturing industry, volatility in foreign exchange rates and supplier concentration risk for its key raw materials.

Rating sensitivities

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

- Significant increase in its scale of operations through greater geographical diversification along with improvement in its PBILDT margin to over 5% on a sustained basis
- Improvement in its overall gearing to below 1.00 times and TOL/TNW to below 2 times on sustained basis

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

- Continued losses in H2FY23 impacting its liquidity further.
- Any debt funded capex or stretch in working capital requirements leading to deterioration in its overall gearing beyond 2.00 times or TOL/TNW beyond 2.50 times on sustained basis.
- Elongation in its gross operating days beyond 180 days on sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Experienced and competent management having more than three decades of experience in the plastic pipe manufacturing industry

Mr Shiv Singh Mehta, Chairman and Managing Director, looks after the overall operation of the company. He is a qualified engineer and holds master degree in business administration. Mr. Shiv Singh Mehta is assisted by his son Mr. Saurabh Singh Mehta in the capacity of Director and his wife Mrs. Purnima Mehta in the capacity of whole time director in the overall functioning of the company. Pipes manufactured by KIL are suitable for potable water supply, irrigation, building construction and infrastructure industry. KIL's board of directors 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).

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

Its group company Kriti Nutrients Limited (KNL; rated CARE A-; Stable/CARE A2+) is engaged in the business of edible oil refining, solvent extraction and manufacturing of soya value added products at its manufacturing facility located in Madhya Pradesh.

Established operations in plastic pipes and fittings business with wide-spread distribution network and diversified clientele

KIL has over three decades of track record in the plastic pipe industry. In terms of capacity, it has 22 extrusion lines in PVC, 14 extrusion lines of HDPE and Drip and 25 injection molding machines. The product profile of KIL includes PVC based irrigation pipes, LDPE based micro-irrigation application pipes, MDPE based gas distribution pipes, HDPE based transportation application pipes, drip irrigation system, etc. It can manufacture polymer extruded pipes from 20 mm to 710 mm. Company had also added product range in CPVC building product segment which is expected to drive growth going forward. It had incurred capex of Rs 20 crore in FY22/FY23 to towards building of CPVC portfolio. During, FY22, Total production declined by 24% in y-o-y basis mainly on the back of decline agricultural segment whose demand was impacted by volatility in PVC prices and extended monsoon in FY22. Same is expected to recover in FY23 with PVC prices coming down and pent-up demand from agriculture segment.

It has a wide distribution network of approximately 700 dealers across 15 states in the country out of which Madhya Pradesh, Rajasthan and Maharashtra are the key markets which forms 61%, 14% and 12% of sales in FY22 respectively. KIL sells PVC pipes under the brand name of "Kasta". KIL enjoys long standing relationship with some of the reputed customers in its industrial segment across CGD, Telecom and Infrastructure sectors. Share of agriculture sector in net sales continue to remain high at 76% of net sales in FY22 followed by 13% from Industrial (CGD and Telecom companies) sector, 9% from infrastructure/building products and remaining 1% from micro drip irrigation.

Moderate scale of operations with volume growth in H1FY23 on y-o-y basis

TOI of KIL declined by 7.50% on y-o-y basis from Rs. 589.16 crore during FY21 to Rs.544.73 crore during FY22 mainly on account of volatility in prices and Covid impact in Q1FY22 albeit remained at moderate level. Total sales volume has declined by 26% with major decline from Agriculture sector (32% during FY22 on y-o-y basis) wherein demand was severely affected during second wave in Q1FY22 and price volatility in Q3FY22. Sales of KIL are seasonal in nature with Q1 (Pre-monsoon) and Q3 (Post-monsoon) together contribute nearly 60-65% of the annual sales where there is a high demand from the agriculture, construction and infrastructure segment.

KIL achieved TOI of Rs.291.25 crore during H1FY23 which grew over H1FY22 with no Covid disruptions but were lower than pre-covid levels. Total sales volume increased by 9% during H1FY23 on y-o-y basis. Company had increased focus on CPVC segment and had reported volume growth in Building segment.

Stable demand outlook

The Indian plastic pipes and fittings industry growth was driven by rising demand from irrigation and WSS (Water supply + Sanitation) sectors, and metal pipe replacement demand from residential real estate. Pipes and fittings have variety applications in the domestic (household) and industrial area. The demand for pipes is catalysed by the growth of agricultural, real estate, petroleum, gas and telecom industries. Demand outlook for the Indian plastic pipes industry is expected to be stable with increase in government spending on construction & infrastructure along with a thrust to the agriculture sector by way of higher targeted production and productivity and more availability of credit and focus on micro-irrigation segment with schemes such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), SWACHH Bharat Mission, Smart Cities Mission, etc. A rise in population, rapid urbanization and increasing income level is projected to drive the demand for the housing sector, which, in turn, could drive the demand for PVC pipes and fittings.

Key rating weaknesses

Higher than envisaged losses in Q2FY23 on back of inventory losses with significant decline in PVC resin prices

In Q2FY23, company had incurred losses at operating level marked by loss of Rs. 30.41 crore on PBILDT level and cash loss of Rs. 39.42 crore which increased significantly over cash loss of Rs. 7.03 in Q1FY23. The same is due to continued declining trend of PVC prices from Rs.140 per kg in April 2022 to Rs.95 per kg in September 2022 and same further moderated in October 2022 to Rs.88 per kg which would impact the overall profitability in Q3FY23. Company had booked certain shipment in March at higher prices which arrived in H1 resulting in inventory losses as well as disruption in operations due to fire incident on April 28, 2022. Due to fire there was inventory loss of Rs.18 crore which was fully insured as claimed by the company and no loss has been considered on that account. The losses were primarily funded by liquidation of inventory levels in H1FY23 and stretching the creditors. However, there is strong demand from agriculture and building segment which is expected to drive the revenue and profitability in H2FY23.

Deterioration in capital structure and debt coverage indicators

Capital structure of KIL remained moderate; however, the same has deteriorated with losses from 1.28x as on March 31, 2022 to 1.94x as on September 30, 2022 and TOL/TNW of 2.67x as on September 30, 2022. However, with expected recovery in H2FY23 same is expected to improve with no major debt funded capex planned in near to medium term and expected improvement in operational performance in H2FY23. Overall debt coverage indicators marked by TDGCA and PBILDT Int. Coverage deteriorated during H1FY23 as against FY22 and is expected improve in H2FY23.

Working capital intensive operation
The operation of KIL is highly working capital intensive marked by gross current assets days of around 191 days in FY22 (FY21: 143 days). It has large working capital requirement mainly on account of its diverse product offerings wherein it needs to keep the minimum inventory level and seasonality associated with its agriculture segment of business which results in higher inventory holding prior to the commencement of season which is Q1 (Pre-monsoon) and Q3 (Post monsoon). Overall increase in inventory level is due to increase in prices. Further, in H1FY23, the company is having loss at inventory level due to sharp price decline in PVC. However, it has efficient collection period which has further improved as on March 31, 2022. Operating cycle remained had increased from 49 days in FY21 to 74 days in FY22.

Susceptibility of profitability to volatile raw material prices with supplier concentration and foreign exchange fluctuation risk
Raw material is the major cost for KIL which accounts for 86% of total cost of sales during FY22. The primary raw material consumed by KIL is PVC resin which is crude derivative and its price is directly linked to the crude oil prices movement which remained volatile in nature, thus affecting the avg. realization from the end products and profit margins. The domestic manufacturers are also affected by forex volatility affecting crude oil prices and import duty changes on polymers. This further adds to the price volatility of polymers. Furthermore, a significant portion of the total polymer requirement in India is met through imports on account of inadequate domestic manufacturing capacity. KIL majorly procures its PVC requirement domestically from RIL while some portion of requirement is also met through imports thus exposing it to supplier concentration risk along with volatility in the foreign exchange as KIL procures ~17% of its raw material requirement from import market (10% imports in FY21) with nil export. However, Company enters into forward contracts for hedging foreign exchange exposures against imports partially mitigation the risk. However, it booked major imported raw material in March which arrived in H1FY23 when the prices had declined resulting in inventory losses.

Competitive industry landscape and seasonality associated with business
A significant portion of the Indian plastic pipes industry comprises of unorganized players on account of low entry barriers and commoditized nature of the product resulting in high competition and limited pricing power. KIL faces stiff competition from much larger organized sector players with nationwide brands like 'Astral', 'Prince', 'Finolex', 'Supreme', 'Ashirwad', etc. High competitive intensity restricts the profitability margins of the smaller plastic pipe manufacturers with regional presence. However, KIL has strong presence in Madhya Pradesh and Rajasthan where its brand 'Kasta' enjoys good market share especially in the agriculture segment.
Sales of KIL are seasonal in nature with Q1 (Pre-monsoon) and Q3 (Post-monsoon) of the financial year together contributing nearly 60-65% of its annual sales wherein there is a high demand particularly from the agriculture segment.

Liquidity: Adequate
KIL has adequate liquidity with moderate liquidity ratios and cushion available from unutilized working capital limits. KIL is expected to fund repayment from working capital changes in FY23, however, losses are due to decline in prices and with no change in business fundamental and demand so same is expected to recover going forward and is a key rating sensitivity. Avg. fund based working capital utilization remained moderate at 64% and avg. non-fund-based working capital utilization remained moderate at 60% for past twelve months ended on September 30, 2022. Cash flow from operation remained low at Rs.3.35 crore during FY22 as compared with Rs.29.15 crore during FY21 on account increased inventory holdings. Current ratio and quick ratio remained moderate at 1.20x and 0.29x respectively as on March 31, 2022. It had cash and bank balance of Rs.11.06 crore as on September 30, 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

Policy on default recognition
Financial Ratios – Non financial Sector
Manufacturing Companies

About the company

Promoted by Mr Shiv Singh Mehta in 1982, Kriti Industries (India) Limited (KIL; CIN :- L25206MP1990PLC005732) is engaged in the manufacturing of the plastic pipes, ducts and mouldings. In January 2010, KIL's solvent extraction division was demerged into separate listed entity named Kriti Nutrients Limited and its auto component manufacturing division was hived off into a 100% subsidiary named Kriti Auto and Engineering Plastic Private Limited (KAEPPL), the assets of which are sold off. KIL manufactures plastic pipes, ducts and fittings made of PVC/LDPE/MDPE and HDPE which caters to the demand of Agriculture, Gas, Telecom and Infrastructure segment. The pipes manufactured by KIL are sold under brand name of "Kasta". KIL's facilities are located at Pithampur, Madhya Pradesh with a total installed capacity of 1,37,880 metric tonne per annum (MTPA) as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (Published)
Total operating income	590.36	544.74	291.25
PBILDT	70.02	39.43	(30.41)
PAT	39.40	13.58	(43.84)
Overall gearing (times)	1.13	1.28	1.94
Interest coverage (times)	6.39	2.75	NM

A: Audited; NM: Not meaningful

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-Cash Credit	-	-	-	-	55.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	155.00	CARE BBB; Stable / CARE A3+
Term Loan-Long Term	-	-	-	January, 2025	14.47	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	-	2.00	CARE A3+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	2.50	CARE A3+

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-Cash Credit	LT	55.00	CARE BBB; Stable	CARE BBB+; Negative	1)CARE BBB+; Stable (05-Oct-21)	1)CARE BBB+; Stable (06-Oct-20)	1)CARE BBB+; Stable (01-Oct-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	155.00	CARE BBB; Stable / CARE A3+	CARE BBB+; Negative / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Oct-21)	1)CARE BBB+; Stable / CARE A2 (06-Oct-20)	1)CARE BBB+; Stable / CARE A2 (01-Oct-19)
3	Term Loan-Long Term	LT	14.47	CARE BBB; Stable	CARE BBB+; Negative	1)CARE BBB+; Stable (05-Oct-21)	1)CARE BBB+; Stable (06-Oct-20)	1)CARE BBB+; Stable (01-Oct-19)
4	Fund-based - ST-Standby Line of Credit	ST	2.00	CARE A3+	CARE A2	1)CARE A2 (05-Oct-21)	1)CARE A2 (06-Oct-20)	1)CARE A2 (01-Oct-19)
5	Non-fund-based - ST-Credit Exposure Limit	ST	2.50	CARE A3+	CARE A2	1)CARE A2 (05-Oct-21)	1)CARE A2 (06-Oct-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	Fund-based - ST-Standby Line of Credit	Simple
3	Non-fund-based - ST-Credit Exposure Limit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	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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