The Kutch Salt And Allied Industries Limited

March 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.63 (Reduced from 49.46)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long Term / Short Term Bank Facilities	30.00	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3+

Details of facilities in Annexure -1

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of The Kutch Salt And Allied Industries Limited (TKSAIL) take into account significant growth in its scale of operations during FY22 (FY refers to the period from April 01 to March 31) and 9MFY23 (Unaudited) coupled with significant increase in net worth base of the company resulted in comfortable capital structure and debt coverage indicators.

The ratings continue to derives 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 moderation in profitability in FY22 and 9MFY23 which despite decline remained at healthy level.

The ratings, however, continue to remain constrained on account of 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.

Key Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Volume-based increase in scale of operations with TOI of more than Rs.950 crore while maintaining healthy profitability in salt business on sustained basis
- Sustaining capital structure with adjusted overall gearing below 0.35 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 45 days on sustained basis

Negative Factors

- Decline in scale of operations to less than Rs.250 crore and moderation in profitability resulting in ROCE below 15%.
- Deterioration in the capital structure with adjusted overall gearing going above 1 times on a sustained basis.

Outlook: Stable

The outlook on the long-term rating of TKSAIL is "Stable" considering the stable demand of its products/services and established presence in salt exports coupled with synergies derived from operational linkages among Friends Group entities that would enable the company to sustain its operational performance over the medium term.

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

Key Strengths

Significant growth in scale of operations in FY22 and 9MFY23

During FY22, TKSAIL reported ~23% Y-o-Y growth in its total operating income (TOI) to Rs.281.08 crore owing to increase in revenue from salt with high volume as well as realization coupled with increase in trading sales of rapeseed to Rs.81.00 crore [PY: Rs.47.76 crore]. TKSAIL's TOI further grew significantly to Rs.783.08 crore in 9MFY23 (UA) on the back of significant increase in salt trade which it purchased from third parties and exported it to long time trading partner i.e. Express Well Resources Pte. Ltd. as well as other parties. It was an opportunity-based trading wherein it purchased the salt and undertake washing activity at company facility and then same is mainly exported. As articulated by management, same may be shifted to another company going forward which is a key credit monitorable. Company had extended loans/ advances to related parties which are interest bearing in nature and had resulted in interest income from Rs.2.79 crore [PY: Rs.3.00 crore] in FY22.

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

Significant increase in net worth base resulting in comfortable capital structure and debt coverage indicators

TKSAIL's tangible net worth base augmented to Rs.202.64 crore as on March 31, 2022 [PY: 161.81 crore] on the back of accretion of healthy profits of past years into reserves. As a result, capital structure of the company marked by its overall gearing ratio remained comfortable at 0.41 times as on March 31, 2022 which is in line with previous year. TKSAIL's tangible net worth further grew to Rs.335.12 crore as on December 31, 2022 (UA) with accretion of healthy profit of ~Rs.130 crore pertained to 9MFY23 (UA) which led to further decrease in overall gearing ratio to 0.24 times as on December 31, 2022 (UA). Adjusted overall gearing (adjusted Networth = Tangible net-worth less loans and advances to related parties) also remained comfortable at 0.93 times as on March 31, 2022 [PY:0.74 times] and 0.31 as on December 31, 2022.

Debt coverage indicators of the company remained stable over the previous year and comfortable as marked by interest coverage ratio of 14.17 times and total debt to GCA of 1.78 times for the year ended on March 31, 2022. Debt coverage indicators improved on the back of increased PBILDT, and subsequently GCA, and remained comfortable in the nine months ended on December 31, 2022 (UA).

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, auto dealerships, 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, petroleum products & edible oil and cumulative renewable power generation capacity of more than 150 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.

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 ~66% of its TOI during FY22 (PY:73%).

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 6.00 MW for Solar [including recently added i.e. October, 2022 capacity of 4 MW as a part of group capex] as on December 31, 2022. 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.12.42 crore [PY: Rs.10.35 crore].

Healthy profitability despite moderation in FY22 and 9MFY23

With increase in trading sales proportion coupled with net loss reported on trading of rapeseed, operating profitability of the company declined in FY22 over FY21 as marked by PBILTD margin and PAT margin which decreased by 1030 bps and 719 bps respectively on y-o-y basis, though continued to remain healthy at 22.31% and 14.41% respectively in FY22. In 9MFY23 (UA), owing to higher proportionate trading income, operating margin remained stable at 23.51% [23.33% in 9MFY22 (UA)].

Key Weaknesses

Moderate customer concentration

TKSAIL has reputed but concentrated customer profile as ~41% [PY: ~49%] of its TOI was from its top customer. During FY22, customer concentration increased over the previous year and remained high as top five customers contributed ~89% of its TOI [FY21: 53%; FY20: 92%], however, customer concentration reduced to as ~70% of revenue was from top five customers in 9MFY23 (UA).

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, 2022 loans and advances extended to related parties stood at Rs.113.68 crore [PY: Rs.71.10 crore]. Also, it has plans to take 108 truck on lease form its associate concern translating into annual lease outgo of Rs.22-23 crore from FY24 onwards for meeting its logistics requirement related to increased trading activity in 9MFY23. Going forward, L&A given to group companies and its impact on liquidity profile of the company is key credit monitorable.

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

High export sales of the TKSAIL 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, growing import [i.e. coal, steel scrap etc.] activities during last couple of years provide partial hedge against forex risk.

Liquidity: Adequate

Liquidity of TKSAIL remain adequate marked by moderate utilization of its working capital limits coupled with healthy gross cash accruals against low debt repayment obligations along with moderate liquidity ratios and cash flow from operations (CFO).
The average utilization of fund based working capital remained at ~70% in last 12 months ended in December 31, 2022. Further, current ratio of TKSAIL remained at 3.31 times as on March 31, 2022. With lower outstanding of finished goods inventory (salt); operating cycle improved from 91 days in FY21 to 58 days in FY22. Apart from free cash and bank balance of Rs.7.96 crore, TKSAIL has fixed deposits (lien marked) amounting to Rs.5.26 crore as on March 31, 2022. TKSAIL's CFO decreased with increased debtors but it continued to remain moderate at Rs.19.34 crore. Going forward, it is expected that business will generate healthy cash accruals of Rs.75-170 crore in FY23-FY25 as against low repayment of Rs.11-15 crore during same period.

Applicable Criteria:

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Wholesale Trading
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

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 6 MW as on December 31, 2022(including addition of 4MW solar power plant in October 2022).

Brief Financials (in Rs. crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	216.89	281.08	783.08
PBILDT	70.72	62.71	184.12
PAT	46.86	40.52	132.48
Overall gearing (times)	0.41	0.41	0.24
Adjusted overall gearing (times)#	0.74	0.93	0.33
PBILDT Interest coverage (times)	13.87	14.17	61.99

A: Audited; UA: Unaudited, # adjusted Networth = Tangible net-worth less loans and advances to related parties; Note: 'the above results are latest financial results available'

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
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	831/07/2033	22.61	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	31/03/2025	13.02	CARE BBB+; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	30.00	CARE BBB+; Stable / 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-Bank Overdraft	LT	-	-	1)Withdrawn (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BB+; Stable (05-Apr-19)
2	Fund-based - LT-Term Loan	LT	22.61	CARE BBB+; Stable	1)CARE BBB; Stable (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BB+; Stable (05-Apr-19)
3	Fund-based - LT/ ST-EPC/PSC	LT/ST*	30.00	CARE BBB+; Stable / CARE A2	1)CARE BBB; Stable / CARE A3+ (07-Apr-22)	-	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)
4	Fund-based - LT-Term Loan	LT	13.02	CARE BBB+; Stable	1)CARE BBB; Stable (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	1)CARE BBB (SO); Negative (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Limited 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.

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