CareEdge RATINGS

Kanoria Chemicals & Industries Limited

June 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	105.04	CARE BBB+; Stable	Revised from CARE A-; Stable
Short Term Bank Facilities	65.00	CARE A2	Revised from CARE A2+

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Kanoria Chemicals & Industries Ltd (KCIL) is on account of moderation in the financial performance in Q4FY23 leading to lower than expected full year FY23 (refers to the period April 1 to March 31) performance as well as expected subdued performance going forward in next two quarters due to dumping of Pentaerythritol (Penta) impacting its selling price. This has led to significant dip in profitability and related parameters in Q4FY23. Although the performance of Penta is expected to remain subdued in the near to medium term due to continued dumping of chemicals, the performance is expected to improve steadily from the current level with ramping up of Formaldehyde and Hexamine production along with newly established Resin plant. The outcome related to review of the anti-dumping decision by Government of India (GOI) shall remain key rating monitorable.

The ratings continue to derive comfort from the experience of the promoters, presence of the group in diversified businesses, long track record of operations of the company in the chemicals business and satisfactory capital structure and debt protection matrices.

Ratings, however, continue to remain constrained by vulnerability of profitability to volatility in input prices and high exposure in group companies also leading to low return on capital employed.

Rating Sensitivities

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

- Divestment of exposure in group companies leading to improvement in return metrics.
- Increase in scale of operations (>Rs.700 crore) along with Return on Capital Employed (ROCE) moving beyond 10% on a sustained basis.

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

- Decline in PBILDT margin (<5%) on a sustained basis.
- Deterioration in overall gearing (>0.75x) and Total Debt/GCA (>7x) on a sustained basis.
- Material increase in percentage of pledge of the promoters' share in KCIL from current levels.

Analytical Approach: Standalone. Exposure in the group companies has also been factored in the rating.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its market position and scale of operation along with comfortable capital structure at current level over the medium to long-term period.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations of the company in the chemical segment: KCIL is a part of the SS Kanoria Group with long presence in the fields of chemicals, petrochemicals, textiles and jute. KCIL has an

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

operational track record of more than five decades in the chemical business. Mr. R.V. Kanoria (son of Late S. S. Kanoria), CMD, takes care of day-to-day affairs of the company and has more than three decades of experience in the business.

Satisfactory capital structure and debt protection matrices: KCIL's overall gearing has been comfortable at 0.19x as on March 31, 2023, majorly due to high net worth, having remained almost stable from 0.15x as on March 31, 2022. The slight moderation was due to increase in working capital utilisation leading to increase in debt levels. Further, the debt coverage indicators also remained satisfactory marked by interest coverage and TD/GCA of 4.17x and 4.44x as on March 31, 2023, respectively.

Key Rating Weaknesses

Moderation in profitability in FY23 albeit improvement in TOI: The profitability of the company witnessed moderation in FY23 with operating margins of 5.69% in FY23 as against 9.14% in FY22 and 7.40% in FY21. The moderation in margins is primarily owing to decline in selling price of Pentaerythritol (Penta). Although the performance of Penta is expected to remain subdued in the near to medium term due to continued dumping of chemicals, the performance is expected to improve steadily from the current level with ramping up of Formaldehyde and hexamine production along with newly established Resin plan. However, the outcome related to review of the anti-dumping decision by Government of India (GOI) shall remain key rating monitorable.

Though the total operating income (TOI) of the company grew by around 7% y-o-y in FY23 from Rs.649.11 crore in FY22 to Rs.695.98 crores in FY23, the PAT margins moderated from 3.85% in FY22 to 0.85% in FY23.

High exposure in group companies: The company has fund based exposure in subsidiary companies in the form of investment and loans & advances amounting to around Rs.270 crore as on March 31, 2022 (around Rs.258 crore as on March 31, 2021) accounting for 42.4% of its net-worth (42% in FY21). Also, KCIL has extended corporate guarantee (outstanding guarantee of around Rs.186 crore as on March 31, 2022; loan outstanding against such guarantee stood at Rs.144 crore) for loans availed by subsidiary companies.

Out of the total outstanding exposure to group companies (Rs.414 crores), around Rs.321 crore was outstanding against subsidiary Kanoria Africa Textile PLC (KAT), Ethiopia, (Rs.184 crores fund based and Rs.137 crore outstanding against corporate guarantee of Rs.152 crore). The performance of KAT witnessed moderation in FY22 and H1FY23 owing to local issues in Ethiopia. Nonetheless, it is expected that KAT will earn adequate gross cash accruals to meet its debt repayment obligations without any further support from KCIL.

Further, KCIL has exposure of around Rs.93 crore in subsidiary APAG Holding AG (APAG), Switzerland (including loan outstanding of Rs.7 crore against corporate guarantee of around Rs.34 crore). Financial performance of APAG also moderated in FY22 mainly attributable to the shortage of semi-conductors. However, financial performance of APAG has started improving in H1FY23 and expected to improve further in short to medium term. Also, management has reiterated that APAG will earn adequate cash accruals to meet its repayment obligations.

Volatile raw material prices: Raw material prices, especially for methanol have been volatile over the past few years. This is mainly due to volatility in the crude oil prices coupled with volatility in the global demand and supply metrics for methanol. This makes KCIL's profitability susceptible to the volatile prices of methanol.

Liquidity: Adequate

Adequate liquidity is characterized by comfortable cushion in accruals (Rs.28 cr.) vis-à-vis scheduled repayment obligations (Rs.11.50 cr.) in FY23, above unity current ratio and moderate utilization of working capital limits in the range of 50% to 60% (based on banker interaction).

Going forward, on the back of steady GCA largely in line with FY23, it is expected that liquidity position of the company will remain adequate in FY24 as against debt repayment obligations.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Kanoria Chemicals & Industries Ltd. (KCIL), promoted by Late S. S. Kanoria about five decades ago, is the flagship company of S. S. Kanoria faction of Kolkata based Kanoria family. The company has three manufacturing facilities at Ankleshwar in Gujarat and at Visakhapatnam and Naidupeta in Andhra Pradesh for the manufacture of alco Chemicals primarily Pentaerythritol, Formaldehyde and Hexamine. The company has a solar power plant of 5.0 MW capacity in Jodhpur, Rajasthan.
Its major two subsidiaries are Kanoria Africa Textiles Plc in Ethiopia engaged in denim manufacturing and APAG Holding AG, Switzerland engaged in the design, development and manufacturing of electronic control units (ECUs) and LED-based concept or design lighting modules primarily for the automotive industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	FY23 (Abr.)
Total operating income	649.11	695.98
PBILDT	59.34	39.62
PAT	24.99	5.93
Overall gearing (times)	0.15	0.19
Interest coverage (times)	6.50	4.17

A: Audited; Abr.: Abridged; 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 for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: 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-Cash Credit	-	-	-	-	30.00	CARE BBB+; Stable
Fund-based -	-	-	-	November,	75.04	CARE BBB+;

LT-Term Loan				2027		Stable
Non-fund-based - ST-BG/LC	-	-	-	-	65.00	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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	65.00	CARE A2	-	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (11-Mar-21) 2)CARE A1 (06-Apr-20)
2	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (06-Apr-20)
3	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	-	1)Withdrawn (07-Jan-22)	1)CARE A-; Negative / CARE A2+ (11-Mar-21) 2)CARE A; Negative / CARE A1 (06-Apr-20)
5	Fund-based - LT-Term Loan	LT	75.04	CARE BBB+; Stable	-	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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