Kriti Nutrients Limited

July 11, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	32.00 (Enhanced from 22.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	2.40	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale & 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 operations in the solvent extraction & edible oil industry, 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 scale of operations, comfortable leverage, strong debt coverage indicators, lean operating cycle and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate profitability margins which improved in FY23 (FY refers the period from April 1 to March 31), presence in the competitive refined oil and solvent extraction business, seasonality associated with availability of soya seeds and susceptibility of its profitability to volatile raw material prices and foreign exchange rate fluctuations. The ratings also factor in the increase in loans and advances given to its group company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with TOI of over Rs.1,000 crore through 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

- Decline in scale of operations with TOI falling below Rs.500 crore and PBILDT margin below 3% on sustained basis.
- Increase in adjusted overall gearing above unity due to any major debt-funded capex, increase in working capital intensity and/or significant increase in loans and advances to related parties.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that KNL is likely to sustain its comfortable financial risk profile in the near term on back of its diversified product portfolio and established presence in Central India in branded refined oil segment.

Key strengths

Experienced promoters and reputed board members

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. Shiv Singh Mehta is assisted by his son Saurabh Singh Mehta in the capacity of Whole-time

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

Director and his wife Purnima Mehta (Non-Executive) in the overall functioning of the company. Apart from the promoters, KNL has established organizational structure headed by qualified second-tier management team looking after various aspects. This apart, KNL's board also includes renowned independent directors viz. Rakesh Kalra (Ex. MD of Eicher Motors Limits) and 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 Chandrasekharan Bhaskar (MD of Xpro India Limited). Its group company Kriti Industries Limited (rated CARE BBB; Stable / CARE A3+) is engaged in the business of manufacturing of the plastic pipes, ducts and mouldings at its manufacturing facility located in Madhya Pradesh.

Diversified product portfolio and strong presence in branded refined oil segment and established marketing network in central India

KNL has diversified product portfolio which includes refined oil (majorly Soyabean refined oil), 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 FY23, the KNL derived nearly 78% (FY22: 75%) of its net sales from refined oil, 10% from soya meal (FY22: 20%), 12% from lecithin and other products (FY22: 5%). The proportion of soya meal-related value-added products had declined in FY23 with overall lower demand in export market and price volatility. Capacity utilization of crushing unit stood less than 10% in FY22 and FY23. KNL has an established track record of over two decades in the solvent extraction and edible oil refining business. 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. Its refined oil sales (in value terms) grew at a CAGR of around 12% in the last four years ended as on March 31, 2023. 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. The company is focusing on growing its presence in the neighbouring states like Gujarat, Maharashtra and Rajasthan as well as value-added products in food and pharma category.

Growing scale of operations

TOI of KNL grew by 5.79% from Rs.754.79 crore in FY22 to Rs.798.50 crore in FY23 on the back of volume growth in refined oil segment but there was degrowth in soya value added products with lower crushing operations and moderation in demand in export market. Exports contributed around 13% of its TOI in FY23 as compared to 15% in FY22.

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, 2023, overall gearing stood at 0.31x with nil term debt. Total debt increased to Rs.40.37 crore as on March 31, 2023 as the company had taken warehousing loan of Rs.35 crore for inventory storage out of which it has repaid Rs. 25 crore as on May 31, 2023. Debt coverage indicators remained strong in FY23 marked by TDGCA and PBILDT interest coverage ratio of 1.62 times and 9.29 times respectively. Same is expected to continue in medium terms with no major debt funded capex planned and stable profitability.

KNL had extended loans and advances to its group company (KIL) which stood at Rs.24.97 crore as on March 31, 2023 as compared with Rs.24 crore as on March 31, 2022. The loans and advances forms around 19% of the total net-worth of the KNL as on March 31, 2023.

Key Weaknesses

Moderate profitability

In FY23, PBILDT margin of KNL had improved and remained moderate at 4.11% as compared to 2.82% during FY22 on account of increase in the proportion of branded refined oil segment with better spread and lower crushing operations undertaken by the company. Also, better realization from lecithin has contributed to better margins. PBILDT margin had exhibited a declining trend in FY21 and FY22 due to increase in input cost mainly soya seed prices which the company was not able to pass on to its customers fully especially in soya meal segment. PAT margin too improved in line with the increase in the PBILDT level during FY23. Overall GCA increased to Rs.24.94 crore in FY23 as compared to Rs.16.01 crore in FY22.

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.

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 remain volatile in nature, which depends upon the rainfall, area under cultivation, international demand-supply as well as government policy (minimum support price (MSP)). The MSP of Soyabean for Khariff 2023-24 was increased from Rs.4,300 per quintal to Rs.4,600 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 and 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 materials 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 three 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. During FY23, KNL did not hedge its raw material through commodity derivatives. However, over the years the management has practiced the sound inventory management policy with low inventory levels.

Liquidity: Adequate

The operating cycle of KNL remained lean at 30 days during FY23 which increased from 24 days in FY22 majorly due to rise in the inventory. KNL has adequate liquidity supported by healthy cash accruals with absence of any scheduled term debt repayments obligations. The average fund-based working capital utilizations level remained moderate at 58.47% for the past 12 months ended May 2023. Current ratio and quick ratio stood at 2.01x and 0.81x respectively as on March 31, 2023. Cash flow from operation was Rs.21.72 crore during FY23 as against negative CFO of Rs.11.59 crore during FY22, which was due to increase in inventory levels and increase in loans and advances was funded through warehousing loan availed by company for Rs.35 crore. KNL had cash and bank balance of Rs.19.34 crore (including fixed deposit of Rs.16.50 crore) as on March 31, 2023 as against Rs.4.08 crore (including fixed deposit of Rs.3.06 crore) as on March 31, 2022 which was utilised for repayment of warehousing loan availed by the company.

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
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	Agricultural Food & other Products	Edible Oil

Promoted by 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 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 March 31, 2023. 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)	March 31, 2023 (Ab)
Total operating income	690.56	754.79	798.50
PBILDT	22.70	21.28	32.82
PAT	15.06	12.31	20.80
Overall gearing (times)	0.04	0.34	0.31
Interest coverage (times)	24.19	10.11	9.29

A: Audited; Ab: 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 the last three years: Please refer Annexure-2

Covenants of rated instruments / facility: Not applicable

Complexity level of various instruments rated: Annexure- 4

Lender details: Annexure-5

Annexure 1: Details of Instrument/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working capital limits		-	-	-	32.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Credit Exposure limit		-	-	-	2.40	CARE A2+

Annexure 2: Rating History of 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	Fund-based - LT/ ST-Working capital limits	LT/ST*	32.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (16-Sep-22)	1)CARE A-; Stable / CARE A2+ (05-Oct-21)	1)CARE A-; Stable / CARE A2+ (06-Oct-20)
2	Non-fund-based - ST-Credit exposure limit	ST	2.40	CARE A2+	-	1)CARE A2+ (16-Sep-22)	1)CARE A2+ (05-Oct-21)	1)CARE A2+ (06-Oct-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/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Lender details

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

Note on the 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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