Kriti Industries (India) Limited

September 01, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	98.82 (Enhanced from 69.47)	CARE BBB; Stable	Reaffirmed
Long-term / Short-term bank facilities	155.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	4.50	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Kriti Industries (India) Limited (KIL) continue to derive strength from the vast experience of its promoters, established operations in the plastic pipes and fittings industry, its widespread distribution network with diversified application and clientele. The ratings also factor in KIL's growth in scale of operation with losses in FY23 (FY refers to the period from April 1 to March 31) albeit profitability shown improvement from Q3FY23, adequate liquidity and stable demand outlook for the plastic pipes industry.

The ratings, however, continue to remain constrained due to moderate capital structure and debt coverage indicators which deteriorated in FY23, large working capital requirements, seasonality associated with demand for KIL's products and presence in a highly competitive plastic pipes manufacturing industry, susceptibility of profitability due to volatile raw material prices with supplier concentration and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant increase in its scale of operations through greater geographical diversification along with improvement in its PBILDT margin to over 7% 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

- Decline in scale of operation below ₹500 crore on sustained basis
- Any debt-funded capex or stretch in working capital requirements leading to deterioration in its overall gearing beyond 2 times or TOL/TNW beyond 2.50 times on sustained basis
- Elongation in its gross operating days beyond 180 days on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that KIL is likely to sustain business in the medium term on the back of its established presence in pipe industry and wide-spread distribution network.

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

Detailed description of the key rating drivers:

Key strengths

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

Shiv Singh Mehta, Chairman and Managing Director, looks after the overall operation of the company. He is a qualified engineer and holds master's 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. All directors are well qualified and have over three decades of experience in the industry. KIL's board of directors also includes renowned independent director viz. Rakesh Kalra (Ex. MD of Eicher Motors Limits), 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 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 33 extrusion lines in PVC, 14 extrusion lines of HDPE and Drip Irrigation and 27 injection moulding machines. The product profile of KIL includes PVC-based irrigation pipes, CPVC-based building products, LDPE-based micro-irrigation application pipes, MDPE-based gas distribution pipes, HDPE-based transportation application pipes and drip irrigation system among others. It has capacity to manufacture polymer extruded pipes from 20 mm to 710 mm diameter. The company had expanded product range in CPVC building product segment which is expected to drive growth going forward. It had incurred capex of ₹50 crore in last two years towards building of CPVC portfolio. During, FY23, total production increased by 54% after a decline of 24% in FY22 with recovery in demand from agriculture segment and healthy growth of building product and industrial segment.

It has a wide distribution network with over 400+ dealers spread across 16 states in the country with central India, mainly Madhya Pradesh, Maharashtra and Rajasthan being the company's primary target market. 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 69% of net sales in FY23 followed by 20% from industrial (CGD and telecom companies) sector, 10% from infrastructure/building products and remaining 1% from micro drip irrigation.

Growth in scale of operation with losses in FY23 albeit improvement in profitability from Q3FY23

The total operating income (TOI) of KIL increased by 34% on y-o-y basis from ₹544.74 crore during FY22 to ₹732.52 crore during FY23. Total sales volume has increased by 56% with recovery in overall industry demand. Sales volume of industrial products and building products increased significantly by 86% and 57% respectively during FY23 on y-o-y basis. KIL has a small presence in the micro irrigation segment and the same is expected to remain at similar level.

KIL incurred losses during FY23 due to a sharp decline in PVC prices which continued till Q3 as well as disruption in operations due to fire incident during Q1FY23. While volume had increased on y-o-y basis, due to decline in sales realization in all segments on account of sharp decline in PVC prices resulting in losses at operating level. In Q1FY24, the company has reported healthy growth in TOI with recovery in profitability, marked by PBILDT margins of 6.49% in Q1FY24 but same was lower than the envisaged level. This was due to incremental cost towards development of building product segment along-with continued volatility in PVC prices. Going Forward, CARE Ratings expects PBILDT margin to remain in range of 6%-9% in the near term.

Stable demand outlook

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), Jal Shakti Abhiyan, Jal Jeevan Mission etc. Har Ghar Nal se Jal initiative aims to provide piped water supply to every household in rural India which will also drive demand in the pipe industry. A rise in population, growing 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 weaknesses

Moderation in capital structure and debt coverage indicators

The capital structure of KIL moderated marked by overall gearing of 1.67x as on March 31, 2023 as compared to 1.28x as on March 31, 2022 due to incremental working capital borrowings and erosion of net-worth owing to losses. The capital structure is expected to remain moderate with no major debt-funded capex planed in near to medium term. The overall debt coverage indicators had also deteriorated with operating losses in FY23 but has improved to moderate level in Q1FY24.

Working capital intensive operation

The operation of KIL is highly working capital intensive with gross current assets days of around 126 days in FY23 (FY22: 191 days) primarily due to higher inventory holding period due to seasonality associated with agri-products, its diverse product offerings and requirement to keep the minimum inventory level as per the demand estimate. Due to seasonality associated with its agriculture segment of business, it needs to hold inventory prior to the commencement of season which is Q1 (Pre-monsoon) and Q3 (Post monsoon). However, it has efficient collection period. It normally avails Letter of credit (LC) facility with usance period of 90 days which in turn allows longer credit period with its suppliers. The operating cycle improved from 74 days in FY22 to 49 days in FY23.

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 87% of total cost of sales during FY23. The primary raw material consumed by KIL is PVC resin which is a crude derivative and its price is directly linked to the crude oil prices movement which remained volatile in nature which coupled with high inventory holding due to seasonality, affects the average 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. 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 Reliance Industries Limited (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 around 28% of its raw material requirement from import market (17% imports in FY22) with nil export in FY23. However, the company enters into forward contracts for hedging foreign exchange exposures against imports, partially mitigation the risk.

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) together contributing nearly 60-65% of the annual sales when there is a high demand from the agriculture, construction and infrastructure segment.

Liquidity: Adequate

KIL has adequate liquidity with moderate cash accruals against its debt repayment obligation and cushion available from unutilized working capital limits. KIL is expected to earn gross cash accrual (GCA) of around ₹35 - 45 crore as against its debt repayment obligation of ₹9 - 10 crore in the near term. The average Fund-based working capital utilization remained moderate at 51% and average non-fund-based working capital utilization remained moderate at 74% for the past 12 months ended on July 31, 2023. Current ratio and quick ratio remained moderate at 0.97x and 0.32x respectively as on March 31, 2023. KIL reported cashflow from operating activities (CFO) of ₹26.83 crore during FY23, as compared to Rs. 3.80 crore in FY22 on account of reduction in inventory levels.

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
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

Promoted by 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, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (Ab)
Total operating income	544.74	732.52	279.55
PBILDT	39.43	-7.70	18.15
PAT	13.58	-23.41	7.68
Overall gearing (times)	1.28	1.67	0.98
Interest coverage (times)	2.75	-0.44	3.84

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 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 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-Cash Credit		-	-	-	75.00	CARE BBB; Stable
Fund-based - ST-Standby Line of Credit		-	-	-	2.00	CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	155.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	2.50	CARE A3+
Term Loan-Long Term		-	-	31/01/2025	23.82	CARE BBB; Stable

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-Cash credit	LT	75.00	CARE BBB; Stable	-	1)CARE BBB; Stable (18-Nov-22) 2)CARE BBB+; Negative (16-Sep-22)	1)CARE BBB+; Stable (05-Oct-21)	1)CARE BBB+; Stable (06-Oct-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	155.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (18-Nov-22) 2)CARE BBB+; Negative / CARE A2 (16-Sep-22)	1)CARE BBB+; Stable / CARE A2 (05-Oct-21)	1)CARE BBB+; Stable / CARE A2 (06-Oct-20)
3	Term loan-Long term	LT	23.82	CARE BBB; Stable	-	1)CARE BBB; Stable	1)CARE BBB+; Stable	1)CARE BBB+; Stable

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
						(18-Nov-22) 2)CARE BBB+; Negative (16-Sep-22)	(05-Oct-21)	(06-Oct-20)
4	Fund-based - ST-Standby Line of Credit	ST	2.00	CARE A3+	-	1)CARE A3+ (18-Nov-22) 2)CARE A2 (16-Sep-22)	1)CARE A2 (05-Oct-21)	1)CARE A2 (06-Oct-20)
5	Non-fund-based - ST-Credit Exposure Limit	ST	2.50	CARE A3+	-	1)CARE A3+ (18-Nov-22) 2)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-Cash Credit	Simple
2	Fund-based - ST-Standby Line of Credit	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Term Loan-Long Term	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:
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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