KPL International Limited

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.63	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	130.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of KPL International Limited (KPL) takes into consideration continued improvement in operational performance as reflected by growing scale of operations in FY23 (refers to the period from April 01, 2022 to March 31, 2023) and healthy profitability margins which is expected to sustain in the medium term, comfortable financial risk profile marked by low overall gearing and healthy debt coverage indicators. Further, the ratings continue to derive strength from experienced promoters, KPL's diversified service offering with wide array of products in chemical segment, stable cash flows to KPL from its wind power assets and diverse client base. These rating strengths are, however, partially offset by exposure of the company towards credit risk profile of its customers, investment in group entities, foreign exchange rate fluctuations risk, susceptibility of the profitability margins towards volatility in goods prices traded by the company and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in scale of operations above Rs.1200 crore with PBILDT margin above 12% on a sustained basis.
- Improvement in ROCE above 25% on a sustained basis.

Negative factors

- Deterioration in scale of operations with PBILDT margin below 6% on a sustained basis.
- Elongation in operating cycle and weakening of liquidity position.
- Increase in investment in group companies leading to increase in adjusted overall gearing above 0.75x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance. CARE Ratings also believes that KPL shall sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Growing scale of operations coupled with high profitability margins: The total operating income of the company grew by ~12% to Rs.594.87 crore in FY23. The PBILDT margin of the company although high, deteriorated slightly to 12.15% in FY23 (PY: 13.16%) due to slight moderation in profitability margins earned by the company on bulk chemicals. Consequently, the PAT margin of the company moderated slightly to 7.19% in FY23 (PY: 8.52%).
During Q1FY24 (refers to the period from April 01, 2023 to June 30, 2023), the total operating income of the company grew by ~31% to Rs.207.41 crore. However, the PBILDT margin of the company declined substantially to 7.96% (PY: 15.71%) owing higher proportion of sales of chemical products on which profitability margin of the company is lower. Consequently, the PAT margin of the company declined to 6.29% in Q1FY24 (PY: 10.71%). Going forward, CARE expects the PBILDT margin to remain in the range of ~7%.

Comfortable financial risk profile: The capital structure of the company remains comfortable as reflected by overall gearing of 0.37x (PY: 0.16x) as on March 31, 2023. Debt coverage indicators of the company also remained comfortable as reflected by PBILDT interest coverage ratio of 40.21x (PY: 31.54x) and total debt/GCA of 1.46x (PY: 0.46x) in FY23.

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

Experienced promoters: KPL belongs to the Kanoria Group and the promoters of KPL have interest in the fields of chemicals, electronic automotive, textiles and jute with Mr. R.V. Kanoria (son of Late S. S. Kanoria) (Chairman) and Mr. Surinder Kumar Kak (Managing Director), taking care of day-to-day affairs of the company. Mr. R.V. Kanoria is an MBA from IMD, Switzerland, and a Diploma holder in Advanced Management Programme from Wharton, USA and possesses over three decades of business experience. The promoters are supported by experienced team of professionals who manage the day to day operations of the company. Other companies that belong to Kanoria group are Kanoria Chemicals and Industries Limited (rated CARE BBB+; Stable/CARE A2) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Limited (rated CARE A-; Stable/CARE A2+) engaged in manufacturing of jute products.

Diverse revenue stream with wide array of products in chemicals trading segment trading segment: Though KPL is a marketing arm of principal which are global giants and deals in products like chemicals, polymers and speciality chemicals (comprising ~94% of the total operating income in FY23), the company also has diversified businesses like commission based indenting business of specific products (comprising ~4% of the total operating income in FY23), and generation and selling of renewable power (comprising ~2% of the total operating income in FY23). However, in terms of profitability, ~70% of the total PBILDT reported by the company in FY23 was contributed from trading of chemicals and manufacturing of industrial gases, ~15% from indenting business, and remaining ~15% from generation and selling of power. The company deals in trading of more than 1000 chemicals/ chemical products and engineering products in its repertoire having applications in various industries such as tyre manufacturing (rubber) industry, paint industry, plastic industry, dyes and intermediaries, glass industry, pharmaceutical industry, paper industry, agro, cement and various other industries.

Diverse and reputed supplier base: KPL procures most of its goods from foreign market and top 5 suppliers of the company constituted around 33% of total goods purchased by the company in FY23 (around 49% in FY22). Some of the reputed suppliers associated with KPL include names such as BASF, Sasol, Budenheium, and Solvay etc. Further, KPL has a broad customer base as evident by top 5 customers forming only ~12% of the total sales of the company from trading business in FY23 (PY: ~14%).

Stable source of revenue generation from renewable power generation: The company also has a stable source of revenue from wind power projects of capacity 15.35 MW, and has a long term PPA signed with GUVNL (Gujarat Urja Vikas Nigam Limited, rated CARE AA; Stable/ A1+) and MSEDCL (Maharashtra State Electricity Distribution Company Limited). Out of 15.35 MW capacity, 14.10 MW of power plant are in the state of Gujarat. Long term PPA with GUVNL at a fixed tariff limits its off-take risk. Further, KPL also has a 1.25 MW power plant in Sangli, Maharashtra with PPA signed with MSEDCL (Maharashtra State Electricity Distribution Company Limited) in June, 2022 for a tenor of 12 years. During FY23, KPL generated total revenue of Rs.13.13 crore (PY: Rs.16.47 crore) from wind power plants.

Key weaknesses

Exposure of KPL to credit risk profile of its customers: Due to absence of any fixed contract and allowing of credit period of 45-60 days to its customers, KPL is also exposed to credit risk profile of its customers. Any change in the risk profile of its customers may adversely impact company's collections/operational cash flow. Company has reported bad debts to the tune of Rs.0.01 Crore during FY23 (PY: Rs.0.05 crore). Trade receivables of the company stood at Rs.77.72 crore as on March 31, 2023, out of which Rs.7.35 crore were from related parties (Rs.80.77 crore as on March 31, 2022 out of which Rs.11.04 crore were from related parties).

Susceptibility to volatility in goods prices (stock holding risk): KPL imports majority of the chemicals and maintains inventory based on past demand of its clients. The company stocks goods for the expected order of around 2 months in advance and sells goods as per the demand from its customers. The market price of the chemicals distributed by the company remains volatile and fluctuates in accordance with the crude oil prices for majority of products traded by company. Thus, the company is exposed to volatility in the prices of the traded goods and any adverse movement in the price of traded goods by the company may have a negative impact on the profitability margins of the company. However, the company has been able to pass on any increase in the cost of traded goods to its customers for the majority of sales. Also, the company deals in the high sea sales (order backed procurement and selling) and the commissioning of goods which mitigates the price volatility risk of traded products to some extent.

Exposure to foreign currency fluctuation risk: The company is exposed to foreign currency fluctuation risk as the company procures majority of goods from foreign markets (~90%) and sells majority of goods in domestic market (more than 90%). So, any adverse movement in the foreign currency w.r.t. rupee can impact the profitability of the company. However, the company covers the foreign currency fluctuation risk by entering into forwards/ futures contracts against the entire imports of traded goods (the premium of Rs.1.33 crore in FY23, Rs.1.48 crore in FY22, and Rs.1.36 crore in FY21). Further, during FY19, KPL had entered into Swap agreement for conversion of rupee term loan into Euro loan. As a result, KPL is also exposed to forex risk on account of its exposure in Euro term loan (interest and repayments) and any adverse movement of Euro w.r.t. rupee can affect the financial risk profile of the company but company is also booking commissioning income in foreign currency, which provides natural hedge and offsets this risk. KPL had booked a net forex gain of Rs.0.74 crore in FY23 as against loss of Rs.0.39 crore in FY22.

Volatile and Competitive nature of Industry: The prices of chemicals and polymers traded by the company are volatile in nature and are linked to production in domestic market and global demand-supply situation. The prices of chemicals traded are linked with the prices of crude oil in international market which remains volatile and are also affected by the changes in government regulations. Moreover, presence of various players in the chemicals trading business (both organized and unorganized) intensifies the competition in the industry.

Liquidity: Adequate: The liquidity position of the company is adequate as reflected by projected gross cash accruals of Rs.56.33 crore in FY24 against scheduled repayments of only Rs.5.75 crore. KPL had free cash and bank balance of Rs.7.06 crore and liquid mutual fund investments of Rs.9.10 crore as on June 30, 2023. Average utilization of working capital borrowings stood low at ~13% for the trailing 12 months ended June 30, 2023. KPL has invested ~Rs.80.41 crore (~35% of tangible net-worth as on June 30, 2023) in group companies which are likely to go up in the near future and would be a key monitorable. The company is not envisaged to incur any capex in the near future.

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
- Wholesale Trading
- Wind Power Projects
- Policy on Withdrawal of Ratings

About the company and industry

KPL international Limited is majorly into distribution and marketing of quality products such as chemicals, polymers, paper and paper chemicals, industrial gases (Refrigerant Gas) in India sourced globally. Over the years, KPL has expanded its services to cover engineering products like brazing alloys that have high end application in automotive and aerospace industries for supply to companies across India. However, major chunk of revenue of company comes from the trading of chemical and chemical related products (~94% of total operating income in FY23). Further, as a part of diversification plans, the company also forayed into renewable energy sector with generation capacity of 15.35 MW wind turbine electrical power.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	529.41	594.87	207.41
PBILDT	69.67	72.29	16.52
PAT	45.13	42.79	13.05
Overall gearing (times)	0.16	0.37	0.30
Interest coverage (times)	31.54	40.21	15.30

A: Audited UA: Unaudited; 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		-	-	-	53.72	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	110.00	CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	20.00	CARE A2+
Term Loan-Long Term		-	-	October, 2023	1.91	CARE A-; Stable

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	Term Loan-Long Term	LT	1.91	CARE A-; Stable	-	1)CARE A-; Stable (18-Aug-22)	1)CARE BBB+; Stable (25-Aug-21)	1)CARE BBB+; Stable (30-Sep-20)
2	Fund-based - LT-Cash Credit	LT	53.72	CARE A-; Stable	-	1)CARE A-; Stable (18-Aug-22)	1)CARE BBB+; Stable (25-Aug-21)	1)CARE BBB+; Stable (30-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	110.00	CARE A2+	-	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (30-Sep-20)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (25-Aug-21)	1)CARE A2+ (30-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	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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