Kriti Industries (India) Limited

March 22, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	95.25 (Reduced from 98.82)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Long-term/short-term bank facilities	150.00 (Reduced from 155.00)	CARE BBB+; Stable/CARE A2	Revised from CARE BBB; Stable/CARE A3+
Short-term bank facilities	5.50 (Enhanced from 4.50)	CARE A2	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Kriti Industries (India) Limited (KIL) considers healthy volume driven growth in its scale of operations in 9MFY24 (refers to the period from April 1 to December 31) along with significant improvement in profitability on the back of stabilization of PVC prices.

The ratings continue to derive strength from vast experience of KIL's promoters with established operations in the plastic pipes and fittings industry, widespread distribution network with diversified application and clientele, adequate liquidity and stable demand outlook for the plastic pipes industry.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its scale of operations to more than ₹1,000 crore through greater geographical diversification along with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improvement in its PBILDT margin to over 10% on a sustained basis.
- Improvement in capital structure with overall gearing below 0.75x and TOL/TNW below 1.50 times on sustained basis.

Negative factors

- Significant decline in scale of operations along with moderation in PBILDT margin below 5% on sustained basis
- Any debt funded capex or stretch in working capital requirements leading to deterioration in its overall gearing beyond 1.75x times on sustained basis
- Elongation in its gross operating days beyond 180 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that KIL will continue to benefit from its established presence in the pipe industry and its widespread distribution network.

Detailed description of key rating drivers

Key strengths

Volume-driven growth in scale of operations and improvement in profitability

During 9MFY24, KIL reported healthy volume driven growth in total operating income (TOI) of 23.50% y-o-y to ₹672.01 crore as compared to ₹544.12 crore in 9MFY23 backed by increase in sales volume across all three segments. While major contribution to sales continued from agricultural products (~70% of TOI) which registered volume growth of 15% y-o-y, sales volume of industrial and building products increased significantly by 102% and 75% respectively during 9MFY24 on y-o-y basis. KIL has small presence in the micro irrigation segment and it is expected to remain at similar level. Further, in 9MFY24, KIL achieved sales volume in line with that reported for full year FY23. However, sales realisation moderated with PVC prices normalising.

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

The company's PBILDT margin improved to 6.80% in 9MFY24 with stabilization of PVC prices, which had shown a declining trend for most of FY23, resulting in inventory and operating losses in FY23. However, with prices stabilising, CARE Ratings expects KIL's PBILDT margin to be in the 6-8% range in the near term.

Experienced and competent management having more than three decades of industry experience

Shiv Singh Mehta, a qualified engineer with a master's degree in business administration, is KIL's Chairman and Managing Director, managing the company's overall operations. He is assisted by his son, Saurabh Singh Mehta, Director, and his wife, Purnima Mehta, Whole-time Director, in managing the overall functions of the company. All directors are well qualified and have more than three decades of industry experience. KIL's board of directors also includes renowned independent directors, Rakesh Kalra (former managing director of Eicher Motors Limits), Manoj Fadnis (former resident of the Institute of Chartered Accountants of India [ICAI], New Delhi, for 2015-16 and vice president of ICAI for 2014-15), and Chandrasekharan Bhaskar (Managing Director 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 in Madhya Pradesh.

Established operations in plastic pipes and fittings, wide-spread distribution network and diversified clientele

KIL has more than three decades of track record in the plastic pipe industry. In terms of capacity, it has 33 extrusion lines for PVC, 14 extrusion lines for high-density polyethylene (HDPE) and drip irrigation, and 27 injection moulding machines. The company's product profile includes PVC-based irrigation pipes, chlorinated PVC (CPVC)-based building products, low-density polyethylene (LDPE)-based micro-irrigation application pipes, medium-density polyethylene (MDPE)-based gas distribution pipes, HDPE-based transportation application pipes and drip irrigation systems, among others. It has the capacity of manufacturing polymer extruded pipes from 20 mm to 710 mm diameter.

The company is expected to incur capital expenditure (capex) of ~ ₹40 crore in FY24 and FY25 for expanding its product range in the CPVC building products and industrial solutions segments. It has already incurred ₹50 crore in past two years towards increasing its presence in building products.

It has a wide distribution network with more than 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". The company enjoys long standing relationship with some of the reputed customers in its industrial segment across city gas distribution (CGD), telecom, and infrastructure sectors. The share of agriculture sector in net sales continue to remain high at 70% of net sales in 9MFY24 followed by 20% from industrial (CGD and telecom companies) sector, 9% from infrastructure/building products and the balance 1% from micro-drip irrigation.

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 and 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 urbanisation, 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

Moderate capital structure and debt coverage indicators

The capital structure of KIL continued to remain moderate marked by overall gearing of 1.36x as on December 31, 2023 due to high working capital borrowings. CARE Ratings expects the capital structure to be moderate, going forward, on the back of planned capex in the medium term. However, with profit reported in 9MFY24, debt coverage indicators improved with PBILDT interest coverage of 3.04x and total debt/gross cash accruals of 5.50x in 9MFY24.

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 accounted 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 realisation from end-products and profit margins. Domestic manufacturers are also affected by forex volatility affecting crude oil prices and import duty changes on polymers. A significant portion of the total polymer requirement in India is met through imports due to 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 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.
The company's sales are seasonal in nature, with Q1 (pre-monsoon) and Q3 (post-monsoon) together contributing about 60-65% of annual sales when there is high demand from agriculture, construction, and infrastructure segments.

Liquidity: Adequate

KIL has adequate liquidity with moderate cash accruals against its debt repayment obligations and cushion available from unutilised working capital limits. It is expected to earn (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 utilisation remained at 56% and average non-fund-based working capital utilisation remained at 73% for last 12 months ended February 29, 2024. KIL reported cashflow from operations (CFO) of ₹26.83 crore in FY23 as compared with ₹3.80 crore in FY22 on the back of its reducing inventory levels.
The company's operations are highly working capital-intensive with gross current assets days of about 126 days in FY23 (FY22: 191 days), primarily due to higher inventory holding period because of the seasonality associated with agri-products, its diverse product offerings, and requirement to keep the minimum inventory level per demand estimate. Owing to seasonality associated with its agriculture business segment, KIL must hold inventory prior to the season commences (Q1: pre-monsoon and Q3: post monsoon). However, it has efficient collection period. The company usually avails letter of credit (LC) facility with an usance period of 90 days, which in turn, allows longer credit period with its suppliers. KIL's operating cycle improved from 74 days in FY22 to 49 days in FY23.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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, 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". The company's facilities are in Pithampur, Madhya Pradesh, with a total installed capacity of 137,880 metric tonne per annum (MTPA) as on December 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	544.74	732.52	672.01
PBILDT	39.43	-7.70	45.71
PAT	13.58	-23.41	17.94
Overall gearing (times)	1.28	1.67	1.36
Interest coverage (times)	2.75	-ve	3.04

A: Audited; UA: Unaudited; -ve: Negative. 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 to Annexure-2

Covenants of rated instruments/facilities: Please refer 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		-	-	-	69.00	CARE BBB+; Stable
Fund-based - ST-Standby line of credit		-	-	-	2.00	CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	150.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit exposure limit		-	-	-	3.50	CARE A2
Term loan-Long term		-	-	31/01/2025	26.25	CARE BBB+; Stable

Annexure 2: Rating history for 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	69.00	CARE BBB+; Stable	1)CARE BBB; Stable (01-Sep-23)	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)

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
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	150.00	CARE BBB+; Stable / CARE A2	1)CARE BBB; Stable / CARE A3+ (01-Sep-23)	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	26.25	CARE BBB+; Stable	1)CARE BBB; Stable (01-Sep-23)	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)
4	Fund-based - ST-Standby line of credit	ST	2.00	CARE A2	1)CARE A3+ (01-Sep-23)	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	3.50	CARE A2	1)CARE A3+ (01-Sep-23)	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 rated instruments/facilities: Not applicable

Annexure -4: Complexity level of 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 complexity levels of 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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