The Kutch Salt And Allied Industries Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.72 (Reduced from 35.63)	CARE BBB+; Stable	Reaffirmed
Long-term / short-term bank facilities	45.00 (Enhanced from 30.00)	CARE BBB+; Stable / CARE A2	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

Ratings assigned to bank facilities of The Kutch Salt And Allied Industries Limited (TKSAIL) continue to derive strength from experienced promoters, with the company being a part of 'Friends Group', having established track record of more than three decades in managing diversified businesses, location advantage of TKSAIL from operating at the Deendayal Port and long-term lease of land used for salt production. Ratings also factor in significant growth in scale of operations in FY23 (FY refers to April 01 to March 31), healthy profitability, comfortable capital structure and debt coverage indicators, and adequate liquidity.
However, ratings continue to remain constrained considering moderate customer concentration, propensity of the company to support other group entities, profitability susceptible to climatic conditions, foreign exchange rate volatility, and its presence in the fragmented and competitive salt industry.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Volume-based increase in scale of operations, while maintaining healthy profitability in the salt business on sustained basis.
- Sustaining capital structure with adjusted overall gearing below 0.25x (based on adjusted Net worth, which is net-worth less loans and advances [L&A] to related parties).

Negative Factors

- Declining scale of operations to less than ₹500 crore and moderation in profitability, resulting in return on capital employed (ROCE) below 15%.
- Deteriorating capital structure with adjusted overall gearing above 1x on a sustained basis.

Analytical Approach: Standalone while factoring in linkage, being a part of 'Friends group' of Gandhidham, Gujarat

Outlook: Stable

The outlook on the long-term rating of TKSAIL is "Stable", considering the stable demand of its products/services, established presence in salt exports, and synergies derived from operational linkages among Friends Group entities, which enable the company to sustain operational performance over the medium term.

Detailed description of the key rating drivers

Key Strengths

Experienced promoters with established track record of 'Friends group' across diversified business segments

Gandhidham-based (Gujarat) Friends Group is promoted and managed by the Singhvi family which includes Sukhraj Amarchand Singhvi, Babulal Amarchand Singhvi Tribhuvan Amarchand Singhvi and Ashok Amarchand Singhvi having experience of over two decades in industry. The Friends group has a presence of more than three decades at Deendayal Port (DPT) and is engaged across diversified business activities like manufacturing & trading of salt, cargo handling & other port-related services, warehousing, auto dealerships, renewable power generation, manufacturing of castor oil as well as other agro products and trading of various commodities. The Friends group is one of the leading salt producers and exporters, has more than 10 lakh square feet of warehousing capacity, and cumulative renewable power generation capacity of more than 180 MW.

Location advantage at the Deendayal Port and long-term lease of land for salt production

India is the third largest producer of salt in the world. Top five salt-producing states in India are Gujarat, Tamil Nadu, Rajasthan, Maharashtra, and Andhra Pradesh. Of total production in India, Gujarat contributes around one-fourth of India's total salt production, largely considering its arid climate and large land availability. TKSAIL is near Deendayal Port Trust (DPT), Kutch, which is one of the major ports in Western India. Hence, TKSAIL's presence in the salt producing region, and proximity to Kandla port results in benefit derived from lower logistic expenditure (on transportation and storage) and easy access to export customers.

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

The company was allotted 3,891 acres of salt pans on an annual lease payment of ₹14.25 crore and one-time security deposit of ₹28.50 crore from DPT in 2017 (for 25 years). Salt pans acquired by TKSAIL are on long-term lease, providing long-term revenue visibility. The salt division constituted ~99% of its total operating income (TOI) in FY23 (PY:66%).

Stable cash flows from renewable power segment

TKSAIL has set renewable energy-based power generation projects through windmills and solar power plants in the last few years, with an aim of diversifying revenue stream. TKSAIL had total installed capacity of 15.60 MW for wind-based power generation and 6.00 MW for Solar as on December 31, 2023. Windmills are at Rajasthan and Gujarat, whereas solar plant is in Gujarat. TKSAIL signed long-term PPAs with respective state utilities (Rajasthan and Gujarat) for sale of power for tenure up to 20 years. The total income earned from the renewable segment remained at ₹11.96 crore in FY23 (PY: ₹12.42 crore).

Significant growth in scale of operations with healthy profitability

In FY23, TKSAIL's TOI more than tripled to ₹1,003 crore (PY: ₹281 crore) owing to significant increase in salt trade, which the company purchased from third parties and exported to long-time trading partner and other parties. In 9MFY24, TKSAIL reported TOI of ₹671 crore [PY: ₹783 crore] with some moderation in revenue from salt trading.

With the increase in salt trading proportion, the company's operating profitability reduced but continued to remain healthy with profit before interest, lease rentals, depreciation, and taxes (PBILDT) margin and profit after taxes (PAT) margin of 18.56% and 13.20% respectively in FY23. The company extended loans/ advances to related parties, which are interest bearing, and resulted in interest income of ₹5.28 crore in FY23 (PY: ₹2.79 crore). In 9MFY24, TKSAIL's PBILDT margin and PAT margin continued to remain healthy at 17.33% and 11.84% respectively.

Comfortable capital structure and debt coverage indicators

TKSAIL's overall gearing remained comfortable at 0.24x as on March 31, 2023, as against 0.41x as on March 31, 2022, owing to increase in tangible net worth base, which augmented to ₹335 crore as on March 31, 2023, considering accretion of healthy profit into reserves. TKSAIL's overall gearing continued to remain comfortable at 0.21x (PY: 0.24x) as on December 31, 2023. TKSAIL purchased 100 tractors in the current quarter for own salt transportation purpose with cost of ~₹20 crore, which was funded through term-loan of ₹16 crore and rest through internal accruals. Overall gearing is expected to remain comfortable going forward. As on March 31, 2023, TKSAIL had extended L&A to related parties to the tune of ₹63 crore (PY:114 crore). Adjusted overall gearing (Tangible net-worth less L&A to related parties) also remained comfortable at 0.30x as on March 31, 2023 (PY:0.93x).

The company's debt coverage indicators company improved over the previous year with increased profits and remained comfortable as marked by PBILDT interest coverage of 38.57x (PY: 14.17x) and total debt to gross cash accruals (TD/GCA) of 0.58x (PY: 1.78x) in FY23. In 9MFY24, TKSAIL's debt coverage indicators remained comfortable with PBILDT interest coverage of 29.35x (PY: 61.99x) and TD/GCA of 0.79x (PY: 0.44x).

Key Weaknesses

Moderate customer concentration

TKSAIL has a reputed-but-concentrated customer profile as ~41% (PY: ~68%) of its TOI was from its top two customers only. In FY23, customer concentration reduced over the previous year as top five customers contributed ~65% of its TOI (FY22: 89%; 9MFY24: 72%).

Propensity to support group entities

TKSAIL is engaged in salt export of the Friends group with healthy cashflows, and provides need-based support to group concerns through L&A. As on March 31, 2023, L&A extended to related parties stood at ₹63 crore (PY: ₹114 crore). TKSAIL has taken 108 trucks on lease from its associate concern, New Kandla Salt & Chemical Co. Private Limited (NKS; CARE BBB-; Stable / A2), translating to an annual lease outgo of ₹22-23 crore from FY24 onwards for meeting its logistics requirement related to increased trading activity. Going forward, L&A given to group companies and its impact on the company's liquidity profile is key credit monitorable.

Profitability susceptible to climatic conditions and presence in the highly fragmented salt industry

The salt industry is highly fragmented, with numerous regional and unorganised players. The business is seasonal, highly dependent on weather conditions, and remains exposed to natural calamities. The salt business was affected in the past due to natural calamities in the Kandla region and reduced export sale business. However, TKSAIL derives benefit from its strategic location in terms of suitability of land and its proximity to DPT.

Exposure to foreign exchange rate volatility
High export sales of TKSAIL expose it to the risk of adverse movement in foreign exchange rates. In the absence of an active hedging policy, TKSAIL remains exposed to foreign exchange fluctuation risk. However, growing imports (coal, and steel scrap among others) in the last couple of years provide a partial hedge against forex risk.

Liquidity: Adequate
Liquidity of TKSAIL remained adequate marked by moderate utilisation of its working capital limits, healthy cash and bank balance, and healthy GCA against low debt repayment obligations.
The average utilisation of fund based working capital remained at ~71% p.a. (PY: ~71% p.a.) in 12-months ended December 2023. Operating cycle remained relatively stable at 59 days in FY23 (PY: 58 days). Apart from free cash and bank balance of ₹44 crore, TKSAIL had fixed deposits (lien marked) amounting to ₹5 crore as on March 31, 2023. TKSAIL's cash flow from operations (CFO) decreased with increased working capital requirement and growing scale of operations marked by cash flow from operations (CFO) of negative ₹3.02 crore in FY23 (PY: positive ₹19.34 crore). TKSAIL reported healthy cash accruals of ₹140 crore in FY23 and is expected to generate cash accruals of ₹120-125 crore in FY24-FY26 as against low repayment of ~₹10 crore in the same period.

Applicable Criteria:
- Definition of Default
- Rating Outlook and Rating Watch
- Financial Ratios – Non financial Sector
- Liquidity Analysis of Non-financial sector entities
- Short Term Instruments
- Factoring Linkages Parent Sub JV Group
- Manufacturing Companies
- Wholesale Trading
- Withdrawal Policy

About the company and industry
Industry Classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Food products	Other food products

About the company
Incorporated in 1950 as a limited company, TKSAIL (CIN: L24238MH1950PLC008313) is part of the Friends Group based in Gandhidham, Gujarat. TKSAIL is engaged in raw salt production, which it carries out on lease hold land of 3,891 acres at Kandla obtained from DPT. TKSAIL also has aggregate wind power generation capacity of 15.60 MW and solar power generation capacity of 6 MW as on December 31, 2023.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	281.08	1002.92	670.86
PBILDT	62.71	186.12	116.24
PAT	40.52	132.34	79.45
Overall gearing (times)	0.41	0.24	0.21
Interest coverage (times)	14.17	38.57	29.35

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 (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated 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-Term Loan	-	-	-	31-07-2033	19.49	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2025	7.23	CARE BBB+; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	45.00	CARE BBB+; Stable / 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	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)Withdrawn (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)
2	Fund-based - LT-Term Loan	LT	19.49	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Mar-23) 2)CARE BBB; Stable (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)
3	Fund-based - LT/ ST-EPC/PSC	LT/ST	45.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-23) 2)CARE BBB; Stable / CARE A3+ (07-Apr-22)	-	1)CARE BBB; Stable / CARE A3+ (31-Mar-21) 2)CARE BBB-; Stable / CARE A3 (01-Apr-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
4	Fund-based - LT-Term Loan	LT	7.23	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Mar-23) 2)CARE BBB; Stable (07-Apr-22)	-	1)CARE BBB; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of the 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-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	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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