Kanoria Chemicals & Industries Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	91.78 (Reduced from 105.04)	CARE BBB; Stable	Revised from CARE BBB+; Stable
Short-term bank facilities	65.00	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Kanoria Chemicals & Industries Limited (KCIL) is due to continued moderation in financial performance in 9MFY24 (refers to period April 1 to December 31) post moderation in FY23 performance (with expected continuation of subdued performance in next two quarters attributable to dumping of pentaerythritol (Penta), impacting its selling price and moderation in average selling price of formaldehyde and hexamine. This has led to moderation in profit margins and debt protection metrics in 9MFY24. Nonetheless, based on complaint filed by the company, the concerned department of Government of India (GOI) has concluded its enquiry into the anti-dumping matter and recommended the imposition of anti-dumping duty on Penta in February 2024 and hence it is expected that anti-dumping duty is likely to be imposed by Q1FY25. Thus, timely imposition of anti-dumping duty on Penta and consequent improvement in the company's financial performance will remain a key rating monitorable.

Ratings continue to derive comfort from the promoters' experience, the group's presence in diversified businesses, the company's long track record of operations in the chemicals business, and satisfactory capital structure.

However, ratings continue to remain constrained by vulnerability of profitability to volatility in input prices and high exposure in group companies leading to low return on capital employed (ROCE). Ratings also factor-in the ongoing capital expenditure (capex) plan to set-up a 115,000 TPA formaldehyde plant and 6000 TPA hexamine plant at Ankleshwar and resultant impact of the debt on the capital's capital structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Divestment of exposure in group companies leading to improving return metrics.
- Increasing scale of operations (>₹700 crore) and ROCE moving beyond 10% on a sustained basis.

Negative factors

- Declining PBILDT margin (<5%) on a sustained basis.
- Deteriorating overall gearing (>0.75x) and total debt/gross cash accruals (GCA) (>7x) on a sustained basis.
- Material increase in percentage of pledge of the promoters' share in KCIL from current levels.

Analytical approach: Standalone. Exposure in the group companies has also been factored in the rating.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its market position, scale of operation, and comfortable capital structure at current level over the medium to long-term period.

Detailed description of the key rating drivers

Key strengths

Experienced promoters and the company's long track record of operations in the chemical segment

KCIL is a part of the SS Kanoria Group with long presence in the fields of chemicals, petrochemicals, textiles, and jute. KCIL has an operational track record of more than five decades in the chemical business. R.V. Kanoria (son of late S. S. Kanoria), CMD, takes care of the company's day-to-day affairs and has more than three decades of experience in the business.

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

Satisfactory capital structure, though with moderation in debt protection matrices

KCIL's overall gearing has been comfortable at 0.19x as on March 31, 2023, majorly due to high net worth, having remained almost stable from 0.15x as on March 31, 2022. The slight moderation was due to increasing working capital utilisation leading to increasing debt levels. The debt coverage indicators though remained satisfactory, moderated in FY23 marked by interest coverage and TD/GCA of 2.52x and 4.44x as on March 31, 2023, as against 6.50x and 1.80x as on March 31, 2022, respectively. Nonetheless, debt coverage indicators such as TD/GCA is expected to moderate further in FY24 attributable to subdued financial performance in 9FY24 and expected muted financial performance in fiscal year 2024. However, post FY24, debt coverage indicators are expected to improve gradually with likely improvements in operating margins attributable to recommendation of imposition of anti-dumping duty on Penta and overall improvement in industry scenario.

Key weaknesses

Moderation in profitability in FY23 though improvement in TOI

The company's profitability witnessed moderation in FY23 with operating margins of 3.51% in FY23 as against 9.14% in FY22 and 7.40% in FY21 and continual subdued performance in 9MFY24 (refers to the period April 1 to December 31) attributable to dumping of Penta impacting its selling price, coupled with moderation in average selling price of formaldehyde and hexamine. This has led to moderation in profitability and related parameters in 9MFY24. Nonetheless, based on complaint filed by the company, the concerned department of Government of India (GOI) has concluded its enquiry into the anti-dumping matter and recommended the imposition of anti-dumping duty on Penta in February 2024, and hence, it is expected that anti-dumping duty is likely to be imposed by Q1FY25. Thus, timely imposition of anti-dumping duty on Penta and consequent improvement in the company's financial performance will remain a key rating monitorable in ensuing quarters.
Though the company's total operating income (TOI) grew by around 7% y-o-y in FY23 to ₹681.10 crore in FY23, the profit after tax (PAT) margins moderated from 3.85% in FY22 to 0.87% in FY23. In 9MFY24, the company has reported loss of ₹1.86 crore on TOI of ₹455 crore as against PAT of ₹10.62 crore on TOI of ₹536 crore in 9MFY23.

High exposure in group companies

The company has fund-based exposure in subsidiary companies through investment and loans and advances amounting to ₹310 crore as on March 31, 2023 (₹270 crore as on March 31, 2022) accounting for 48% (42% in FY22) of its standalone net worth as on March 31, 2023. KCIL has extended corporate guarantee (around ₹200 crore outstanding as on March 31, 2023; loan o/s against CG ₹134 crore) for loans availed by subsidiary companies. Considering loan o/s against CG, exposure to subsidiaries would amount to 69% of its standalone net worth as on March 31, 2023 (65% as of March 2022).
Also, management has reiterated that subsidiaries will earn adequate cash accruals to meet its repayment obligations and there will be no incremental support to be provided to these entities. However, if any, there may be need-based support to be provided at promoter level only.

Moderate project risk

The company has commenced capex plan to set-up a 115,000 TPA formaldehyde plant and 6000 TPA hexamine plant at Ankleshwar with a capital outlay of ₹91 crore. The cost will be financed through mix of debt of ₹64 crore and balance ₹27 crore to be financed through internal accruals over next three to four quarter. The plant is expected to be commissioned in Q3 of next financial year. This new capacity at Ankleshwar will cater to growing demand in various sectors such as phenolic resins, textile, agrochemicals, explosives, and pharmaceuticals, among others in the region as well as the exports markets.

CARE Ratings expects that the company will complete the proposed capex as envisaged given the size of the capex against the net worth and long track of the management, and thereby the company is moderately exposed to project execution and plant stabilisation risk.

Volatile raw material prices

Raw material prices, especially for methanol, have been volatile over the past few years. This is mainly due to volatility in the crude oil prices and in the global demand and supply metrics for methanol. This results in KCIL's profitability susceptible to the volatile methanol prices.

Liquidity: Adequate

Adequate liquidity is characterised by comfortable cushion in accruals (₹28 crore) against scheduled repayment obligations (₹11.50 crore) in FY23, above unity current ratio and moderate utilisation of working capital limits in the last 12 months ending February 2024 standing at around 70%.
On the back of steady GCA largely in line with FY23, CARE Ratings expects that the company's liquidity will remain adequate in FY24 as against debt repayment obligations.

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

KCIL, promoted by Late S. S. Kanoria about five decades ago, is the flagship company of S. S. Kanoria faction of Kolkata based Kanoria family. The company has three manufacturing facilities at Ankleshwar in Gujarat and at Visakhapatnam and Naidupeta in Andhra Pradesh for manufacturing alco chemicals, primarily Penta, formaldehyde and hexamine. The company has a solar power plant of 5.0 MW capacity in Jodhpur, Rajasthan.
Its major two subsidiaries are Kanoria Africa Textiles Plc in Ethiopia engaged in denim manufacturing and APAG Holding AG, Switzerland engaged in the design, development, and manufacturing of electronic control units (ECUs) and LED-based concept or design lighting modules primarily for the automotive industry.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	649.11	681.10	455.07
PBILDT	59.34	23.91	26.29
PAT	24.99	5.93	-1.86
Overall gearing (times)	0.15	0.19	NA
Interest coverage (times)	6.50	2.52	2.98

A: Audited; UA: Unaudited; NA: Not available; 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 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	-	-	-	-	30.00	CARE BBB; Stable
Fund-based - LT-Term loan	-	-	-	November, 2027	61.78	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	65.00	CARE A3+

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	Non-fund-based - ST-BG/LC	ST	65.00	CARE A3+	1)CARE A2 (06-Jun-23)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (11-Mar-21) 2)CARE A1 (06-Apr-20)
2	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (06-Apr-20)
3	Fund-based - LT-Cash credit	LT	30.00	CARE BBB; Stable	1)CARE BBB+; Stable (06-Jun-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)
4	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	1)Withdrawn (07-Jan-22)	1)CARE A-; Negative / CARE A2+ (11-Mar-21) 2)CARE A; Negative / CARE A1 (06-Apr-20)
5	Fund-based - LT-Term loan	LT	61.78	CARE BBB; Stable	1)CARE BBB+; Stable (06-Jun-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Negative (11-Mar-21) 2)CARE A; Negative (06-Apr-20)

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Note on 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Arindam Saha Director **CARE Ratings Limited** Phone: +91-033- 40181631 E-mail: arindam.saha@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Gopal Pansari Assistant Director **CARE Ratings Limited** Phone: +91-033- 40181647 E-mail: gopal.pansari@careedge.in Vikash Kumar Rai Lead Analyst **CARE Ratings Limited** E-mail: vikashkumar.rai@careedge.in

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in