# Kriti Industries (India) Limited

September 24, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 49.56<br>(Enhanced from 26.25) | CARE BBB+; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 40.00 | CARE BBB+; Stable / CARE A2 | Assigned |
| Long-term / Short-term bank facilities | 54.00<br>(Reduced from 69.00) | CARE BBB+; Stable / CARE A2 | LT rating reaffirmed and ST rating assigned |
| Long-term / Short-term bank facilities | 135.00<br>(Reduced from 150.00) | CARE BBB+; Stable / CARE A2 | Reaffirmed |
| Short-term bank facilities | 5.75<br>(Enhanced from 5.50) | CARE A2 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of Kriti Industries (India) Limited (KIL) continue to derive strength from the vast experience of its promoters with established operations in plastic pipes and fittings industry, widespread distribution network with diversified application and clientele and stable demand outlook for the plastic pipes industry. Ratings also factor in KIL's growing scale of operation, improvement in profitability and adequate liquidity.

However, ratings continue to remain constrained due to its 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 risk.

## 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 improvement in its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to over 10% on a sustained basis.
- Improvement in capital structure with overall gearing below 0.75x and total outside liability to total net worth (TOL/TNW) below 1.50x on a 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**

KIL's total operating income (TOI) reported healthy volume driven growth of 18% y-o-y and increased to ₹867.10 crore as compared to ₹732.52 crore in FY24 backed by increase in sales volume across all three segments. This was offset to some extent by decline in sales realisation with normalisation of PVC prices. While major contribution to sales continued from agricultural products (~63% of TOI), which registered volume growth of 17% y-o-y, sales volume of industrial and building products increased

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

significantly by 59% and 63% y-o-y, respectively in FY24. KIL has small presence in the micro irrigation segment and it is expected to remain at similar level. Further, the company reported stable TOI of ₹257.16 crore in Q1FY25.
The company's PBILDT margin improved to 6.91% in FY24 with stabilisation of PVC price which had shown a declining trend for most of FY23, resulting in inventory and operating losses in FY23. PBILDT margin further improved to 9.45% in Q1FY25 with some volatility in PVC prices resulting in inventory gain duringin . However, with prices stabilising, CARE Ratings expects KIL's PBILDT margin to be in the range of 6-8% in the near term.

**Established operations in plastic pipes and fittings, 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 22 extrusion lines for PVC, 14 extrusion lines for high-density polyethylene (HDPE) and drip irrigation, and 25 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.
Furthermore, KIL 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 major revenue generating states. KIL sells PVC pipes under the brand name of "Kasta". The company enjoys long standing relationship with some reputed customers in its industrial segment across city gas distribution (CGD), telecom, and infrastructure sectors. The share of agriculture sector (including micro-drip irrigation) in net sales continue to remain high at 63% of net sales in FY24 followed by 26% from industrial (CGD and telecom companies) sector, and balance 11% from infrastructure/building products.

**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 company's overall functions. The company's directors are well qualified and have over three decades of industry experience. KIL's board of directors also includes renowned independent directors, Rakesh Kalra (former managing director of Eicher Motors Limited), Manoj Fadnis (former president 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 edible oil refining, solvent extraction, and manufacturing soya value-added products at its manufacturing facility in Madhya Pradesh.

**Stable demand outlook**
Demand for pipes is catalysed by 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 and a thrust to the agriculture sector by higher targeted production and productivity and more availability of credit with focus on micro-irrigation segment supported by schemes such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Jal Shakti Abhiyan, and Jal Jeevan Mission among others. Har Ghar Nal se Jal initiative aims to provide piped water supply to every household in rural India, which will also drive demand for 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 1.61x as on March 31, 2024 (PY: 1.67x). However, it improved to 1.27x as on June 30, 2024, with reduction in working capital borrowings. Further, with improvement in profitability, debt coverage indicators improved but continued to remain moderate with PBILDT interest coverage of 2.86x and total debt to gross cash accruals (TD/GCA) of 5.77x in FY24. They further improved to 4.24x and 4.06x, respectively as on June 30, 2024, with increased profitability in Q1FY25.
Further, KIL issued warrants amounting to ₹150 crore in June 2024, payment of which shall be made within 18 months. Out of this, ₹37.50 crore has been received in current year. These funds shall be used for capex/general corporate purpose and the company does not plan on availing term debt for its capex plans. The capex shall be towards expansion of capacity for building products and column pipes and for setting up another plant to increase KIL's geographical reach. CARE Ratings expects the capital structure to be moderate in the near term, however it is expected to improve over time with augmentation of net worth base post this warrant issue.

**Susceptibility of profitability to volatile raw material prices and foreign exchange fluctuation risk**
Raw material is the major cost for KIL which accounted for ~80% of total cost of sales in FY24. 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 price movement which remained volatile and high inventory holding due to seasonality, affects realisation and consequently the company's profitability. 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 and volatility in foreign exchange (~9% of its raw material requirement was met from import market in FY24 [PY: 28%]) with nil export. However, the company enters forward contracts for hedging foreign exchange exposures against imports, partially mitigating the risk.

**Competitive industry landscape and seasonality associated with business**
A significant portion of the Indian plastic pipes industry comprises of unorganised players considering low entry barriers and commoditised product resulting in high competition and limited pricing power. KIL faces stiff competition from much larger organised sector players with nationwide brands like 'Astral', 'Prince', 'Finolex', 'Supreme', and 'Ashirwad', among others. High competitive intensity restricts 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 with Q1 (pre-monsoon) and Q3 (post-monsoon) together contributing ~60-65% of annual sales when there is high demand from agriculture, construction, and infrastructure segments.

**Liquidity:** Adequate
KIL has adequate liquidity with healthy cash accruals against its debt repayment obligations and cushion available from unutilised working capital limits. It is expected to earn GCA of ~₹35 - 40 crore as against its debt repayment obligation of ₹13 -15 crore in the medium term. Average fund and non-fund based working capital utilisation remained moderate at 57% and 76% for past 12 months ended July 2024. KIL reported healthy cashflow from operations (CFO) of ₹57.59 crore in FY24 as compared to ₹26.83 crore in FY23.
The company's operations are highly working capital intensive with gross current assets days of ~112 days in FY24 (FY23: 126 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, allowing longer credit period with its suppliers. KIL's operating cycle improved from 49 days in FY23 to 38 days in FY24.

**Assumptions/Covenants:** Not applicable

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

## Applicable criteria
Definition of Default
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

| Macroeconomic 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 manufacturing plastic pipes, ducts and mouldings. In January 2010, KIL's solvent extraction division was demerged into separate listed entity, Kriti Nutrients Limited and its auto component manufacturing division was hived off in a 100% subsidiary named Kriti Auto and Engineering Plastic Private Limited (KAEPPL), assets of which are sold off. KIL manufactures plastic pipes, ducts and fittings made of PVC/LDPE/MDPE and HDPE which caters the demand of agriculture, gas, telecom and infrastructure segment. 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 June 30, 2024.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | June 30, 2024 (UA) |
|---|---|---|---|
| Total operating income | 732.52 | 867.10 | 257.16 |
| PBILDT | -7.70 | 59.95 | 24.30 |
| PAT | -23.41 | 21.41 | 13.65 |
| Overall gearing (times) | 1.67 | 1.61 | 1.27 |
| Interest coverage (times) | -ve | 2.86 | 4.24 |

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:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT/ ST-Cash Credit | | - | - | - | 54.00 | CARE BBB+; Stable / CARE A2 |
| Fund-based - ST-Standby Line of Credit | | - | - | - | 2.00 | CARE A2 |
| Fund-based/Non-fund-based-LT/ST | | - | - | - | 40.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 135.00 | CARE BBB+; Stable / CARE A2 |
| Non-fund-based - ST-Credit Exposure Limit | | - | - | - | 3.75 | CARE A2 |
| Term Loan-Long Term | | - | - | 31/01/2025 | 49.56 | CARE BBB+; Stable |

**Annexure-2: Rating history for last three year**

| Sr. No. | Name of the Instrument/ Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | 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 |
| 1 | Fund-based - LT/ ST-Cash Credit | LT/ST | 54.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable (22-Mar-24)<br><br>2)CARE BBB; Stable (01-Sep-23) | 1)CARE BBB; Stable (18-Nov-22)<br><br>2)CARE BBB+; Negative (16-Sep-22) | 1)CARE BBB+; Stable (05-Oct-21) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST | 135.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE BBB+; Stable / CARE A2 (22-Mar-24)<br><br>2)CARE BBB; Stable / CARE A3+ (01-Sep-23) | 1)CARE BBB; Stable / CARE A3+ (18-Nov-22)<br><br>2)CARE BBB+; Negative / CARE A2 (16-Sep-22) | 1)CARE BBB+; Stable / CARE A2 (05-Oct-21) |
| 3 | Term Loan-Long Term | LT | 49.56 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (22-Mar-24)<br><br>2)CARE BBB; Stable (01-Sep-23) | 1)CARE BBB; Stable (18-Nov-22)<br><br>2)CARE BBB+; Negative (16-Sep-22) | 1)CARE BBB+; Stable (05-Oct-21) |
| 4 | Fund-based - ST-Standby Line of Credit | ST | 2.00 | CARE A2 | - | 1)CARE A2 (22-Mar-24)<br><br>2)CARE A3+ (01-Sep-23) | 1)CARE A3+ (18-Nov-22)<br><br>2)CARE A2 (16-Sep-22) | 1)CARE A2 (05-Oct-21) |
| 5 | Non-fund-based - ST-Credit Exposure Limit | ST | 3.75 | CARE A2 | - | 1)CARE A2 (22-Mar-24)<br><br>2)CARE A3+ (01-Sep-23) | 1)CARE A3+ (18-Nov-22)<br><br>2)CARE A2 (16-Sep-22) | 1)CARE A2 (05-Oct-21) |
| 6 | Fund-based/Non-fund-based-LT/ST | LT/ST | 40.00 | CARE BBB+; Stable / CARE A2 | | | | |

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

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of instruments rated

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT/ ST-Cash Credit | Simple |
| 2 | Fund-based - ST-Standby Line of Credit | Simple |
| 3 | Fund-based/Non-fund-based-LT/ST | Simple |
| 4 | Non-fund-based - LT/ ST-BG/LC | Simple |
| 5 | Non-fund-based - ST-Credit Exposure Limit | Simple |
| 6 | Term Loan-Long Term | Simple |

## Annexure-5: Lender details

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| To view lender-wise details of bank facilities please click here |

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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