KPL International Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	80.00 (Enhanced from 53.72)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	130.00	CARE A2+	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn

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 steady growth in scale of operations during FY24 (refers to the period from April 01, 2023 to March 31, 2024) and 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 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, increase in investment in subsidiary and affiliate company, foreign exchange rate fluctuations risk, susceptibility of the profitability margins towards volatility in goods prices traded by the company and competitive nature of industry.

At the request of the company vide letter dated August 27, 2024, we hereby withdraw the outstanding rating(s) of 'CARE A-; /Stable; CARE A2+' [A Minus; Outlook: Stable/ A Two Plus] assigned to the term loan facility of your company with immediate effect owing to full repayment & No dues certificate received from lender.

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

Steady growth in scale of operations & moderate profitability

The total operating income of the company reported y-o-y growth of ~13% and stood at Rs.674.88 crore in FY24 (PY: Rs.594.87 crore). The PBILDT margin, however moderated by 327 bps and stood at 8.97% in FY24 (PY: 12.23%) owing to the impact of red sea crisis thereby leading to higher freight cost and delay in the shipment of suppliers. Moreover, excess capacities in China along with overall sluggish demand led to sharp drop in prices industry wide. Though, the impact on the company was not that pronounced owing to it's presence into diverse revenue streams thereby systematically de-risking the business.

Further, the PAT margin also moderated by 121 bps and stood at 5.98% in FY24 (PY: 7.19%) owing to higher finance cost.

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

Comfortable financial risk profile
The capital structure of the company remains comfortable as reflected by overall gearing of 0.24x as on March 31, 2024. The debt coverage indicators remained comfortable with Interest Coverage Ratio (PBILDT/Interest) of 11.24x (PY: 40.46x) and total outside liabilities/tangible net worth of 0.43x as on March 31, 2024 (PY: 0.55x). The moderation in Interest coverage ratio was primarily owing to moderation in operating profit and simultaneous increase in finance cost, however the same still continues to be comfortable.

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 A3+) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Limited (rated CARE BB+; Stable/CARE A4+) 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 ~96% of the total operating income in FY24), the company also has diversified businesses like commission based indenting business of specific products (comprising ~2% of the total operating income in FY24), and generation and selling of renewable power (comprising ~2% of the total operating income in FY24). However, in terms of profitability, ~73% of the total PBILDT reported by the company in FY24 was contributed from trading of chemicals and manufacturing of industrial gases, ~8% from indenting business, and remaining ~20% 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 ~39% of total goods purchased by the company in FY24 (around 33% in FY23). 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 ~15% of the total sales of the company from trading business in FY24 (PY: ~12%).

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; Positive/ 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 FY24, KPL generated total revenue of Rs.13.55 crore (PY: Rs.13.13 crore) from wind power plants.

Key weaknesses

Increase in investments in subsidiary and affiliate company
The company invested Rs.70.06 crore in APAG Holding SG (APAG), situated in Switzerland during FY24. APAG is an unlisted company incorporated in Switzerland and is mainly engaged in developing and selling electronic and mechatronic modules and control devices for the automotive, consumer goods, power tool electronics and building automation Industries. The Company has set up the SPV, namely Cosyst Holding AG, a 100% subsidiary of KPL and made an investment in the shares of APAG through the route of this SPV to take a 25% stake in its shareholding (55% shareholding is of Kanoria Chemicals & Industries Limited and 20% of Novares). Further, the company has also made investment of Rs.15.36 crore into Fytomax Nutrition Private Limited, who intends to start manufacturing of Soy Protein Isolate. However, the company's financial risk profile continues to remain comfortable as even after adjusting for these investments from tangible-net-worth, the adjusted overall gearing stood comfortable at 0.37x as on Mar-31, 2024 (PY: 0.40x).

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.0.15 Crore during FY24 (PY: Rs.0.01 crore). Trade receivables of the company stood at Rs.97.88 crore as on March 31, 2024, out of which Rs.14.96 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 most of the 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.0.95 crore in FY24 and Rs.1.33 crore in FY23). KPL had booked a forex loss of Rs.0.65 crore in FY24 as against net forex gain of Rs.0.74 crore in FY23.

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.52.37 crore in FY25 as against nil repayments in FY25. Average utilization of working capital borrowings stood comfortable at ~33% for the trailing 12-months ended July, 2024. The company has free cash and bank balance of Rs.4.68 crore as on June 30, 2024. The company is not envisaged to incur any capex in the near future.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments
Wholesale Trading

About the company and industry

Industry classification

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

KPL international Limited is majorly into distribution and marketing of 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 speciality 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.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	594.87	674.88	151.13
PBILDT	72.75	60.45	14.80
PAT	42.79	40.38	9.72
Overall gearing (times)	0.37	0.24	NA
Interest coverage (times)	40.46	11.24	8.92

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not available

Status of non-cooperation with previous CRA: NA
Any other information: NA
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		-	-	-	80.00	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	0.00	Withdrawn

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 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	Term Loan-Long Term	LT	-	-	-	1)CARE A-; Stable (04-Sep-23)	1)CARE A-; Stable (18-Aug-22)	1)CARE BBB+; Stable (25-Aug-21)
2	Fund-based - LT-Cash Credit	LT	80.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Sep-23)	1)CARE A-; Stable (18-Aug-22)	1)CARE BBB+; Stable (25-Aug-21)
3	Non-fund-based - ST-BG/LC	ST	110.00	CARE A2+	-	1)CARE A2+ (04-Sep-23)	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (25-Aug-21)
4	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (04-Sep-23)	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (25-Aug-21)

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

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

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

Annexure-6: List of all the entities consolidated: NA

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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