

## Neelkanth Salt Chem India Private Limited

October 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	109.75	CARE BBB-; Stable / CARE A3	Upgraded from CARE BB+; Positive / CARE A4+
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Neelkanth Salt Chem India Private Limited (Neelkanth Salt) is on account of significant improvement in scale of operations and sustained profitability in current year, owing to commencement of manufacturing operations during the year.

It further derives strength from company's experienced promoters, its location advantage from operating at near Kandla Port, and adequate liquidity.

The Ratings however remains constrained on account of moderate capital structure, susceptibility of salt business to weather conditions and natural calamities and exposure to volatility in foreign exchange rates.

CARE Ratings Limited has withdrawn the ratings assigned to long term bank facilities with immediate effect, as the company has not availed any bank limits against the aforementioned facility as on date.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Growth in scale of operations (from manufacturing activity) along with sustenance of operating profitability at 8-9%
- Sustenance of overall gearing below unity

#### Negative factors

- Any major moderation in TOI or profitability on sustained basis
- Deterioration in overall gearing beyond 1.50x
- Any major withdrawal of funding support from promoters resulting in increase in reliance on external debt and moderation in interest coverage below 2.50x

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company will continue to benefit from vast industry experience of the promoters in salt industry and sustain its financial risk profile in near to medium term.

### Detailed description of key rating drivers:

#### Key strengths

##### Significant growth in scale of operations with moderate profitability

During FY24, Neelkanth Salt Total Operating Income (TOI) increased by 21.37% y-o-y to Rs.237.64 cr. in FY24 (Rs.195.79 cr. in FY23). Furthermore, company registered TOI of Rs.341.03 cr. in 5MFY25 (till August 15, 2024). The growth in scale in current year was mainly due to increase in salt exports, alongwith commencement of bromine. It is envisaged to achieve TOI around Rs.700 cr. in FY25.

Till FY24, TOI comprised salt trading (mainly exports). Company had concluded a capex for setting up bromine plant in another group entity, asset base of which was transferred to Neelkanth Salt in March 2024. Thus, with commencement of salt and bromine manufacturing in current year (discontinuation of trading) and with higher salt exports, operating margin improved to 10.73% in 5MFY25 (6.41% in FY24). Operating margins are expected to remain in range of 8-9% in FY25.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### **Established operations of group entities in diverse business segments and experienced promoters**

Neelkanth Salt is a part of Neelkanth Group of Ghandidham which has presence in diversified business segments such as business of manufacturing and trading activity of Salt and other chemicals, liquid storage terminal handling, warehousing, trading of products such as Sesame Seeds, Timber, Groundnuts and Civil Construction, Freight & Transportation amongst others. The promoters of Neelkanth Salt have presence in the salt industry of more than 15 years. Mr. Shamji Kangad has experience in this industry of 30 years and Raj Kangad has experience of around 15 years in this industry.

The promoters have also supported the business of Neelkanth Salt by extending unsecured loans as and when required. Promoters infused additional unsecured loans of Rs.44 cr. in current year and unsecured loans stood at Rs.63 cr. as on August 15, 2024 (Rs. 19 cr. as at FY24 end). This apart, promoters also infused sizeable preference share capital for the manufacturing operations.

### **Location advantage of Neelkanth Salt from operating near Deendayal Port (DPT)**

India is the third largest Salt producing Country in the World after China and USA with Global annual production being about 230 million tonnes. Out of total production in India, Gujarat contributes around one fourth of India's total salt production, largely on account of arid climate and large land availability. Also, salt exports from India remains sizeable. Company is located near DPT which is one of the major ports in Western India. Hence, Neelkanth Salt's presence in the salt producing region results in benefit derived from lower logistic expenditure (both on transportation and storage) along with easy access to customers.

### **Key weaknesses**

#### **Moderate capital structure and debt coverage indicators**

Capital structure is moderate marked by overall gearing of 0.74x as on March 31, 2024 (P.Y.3.54x) It improved significantly with improvement in net worth base (owing to infusion of preference shares by promoters, considered as equity as redeemable after 15 years of allotment). Company concluded capex of Rs.110.22 cr., the capex was towards 18000 acres land for salt and bromine manufacturing. For this capex promoters infused Rs.12.16 cr. interest free unsecured loans and Rs.67.50 cr. preference share capital, Rs.27.50 cr. funded by creditors and balance by gross cash accruals.

Promoters infused additional Rs.44 cr. unsecured loans to pay off creditors for concluded capex and incremental working capital requirements. Company also availed additional Rs.60 cr. working capital borrowings to support increase in scale of operations.

Debt coverage indicators stood moderate with PBILDT interest coverage of 3.27x (2.02x in FY23) and total debt/ GCA of 5.90x as at FY24 end (19.13x in FY23)

#### **Susceptibility of profitability to climatic conditions and presence in the highly fragmented salt processing industry**

The salt industry is highly fragmented with presence of numerous regional and unorganized players. Further, the business is seasonal and highly dependent on weather conditions and remains exposed to natural calamities. Salt business has been affected in the past due to natural calamities in Kandla region alongwith reduced exports. However, Neelkanth salt's strategic location in terms of its proximity to Deendayal Port (DPT) provides some benefit to the entity with sizeable exports of salt from India.

#### **Exposure to volatility in foreign exchange rates**

Company earns entire revenue from exports, which exposes the company to risk of adverse movement in foreign exchange rates. In absence of any active hedging policy, Neelkanth Salt remains exposed to foreign exchange fluctuation risk.

#### **Liquidity: Adequate**

Liquidity of the company remains adequate in absence of external long-term debt. Further, company is supported by promoters in form of unsecured loans. Operating cycle remains moderate at 120 days in FY24 (87 days in FY23), though elongated compared to last year due to high inventory period of 134 days in FY24 (88 days in FY23), with transfer process of manufacturing operations undertaken in the month of March 2024.

Average utilization of working capital limits remains moderate at 70% for past 12 months ended September 2024.

### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

Neelkanth Salt Chem Private Limited (Neelkanth Salt) is part of Neelkanth group which is engaged in business of manufacturing and trading activity of Salt and other chemicals, liquid storage terminal handling, warehousing, trading of products such as Sesame Seeds, Timber, Groundnuts and Civil Construction, Freight & Transportation amongst others. Neelkanth group which was founded by Mr. Sadhabhai Kangad in 1968. Neelkanth Salt was incorporated in December 2019 as a private limited company, is into business of trading of salt and exports to countries like China, Japan, Dubai and Hongkong, amongst others. Neelkanth Salt is currently managed by Mr. Shamjibhai Kangad and Mr. Raj Kangad, they have experience of more than 15 years in this industry through other group companies.

Company has commenced manufacturing of salt and bromine from March 2024 onwards, with transfer of 18000 acres of lease hold land from Neelkanth Salt Supply to Neelkanth Salt in March 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY25 (till August 15, 2024) (Prov.)
Total operating income	195.79	237.53	341.03
PBILDT	7.29	15.22	35.59
PAT	2.77	6.65	NA
Overall gearing (times)	3.54	24.00	NA
Interest coverage (times)	2.02	3.27	13.02

A: Audited, Prov.: Provisional, NA:Not Available ; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** None

**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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan (Proposed)		-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST		-	-	-	109.75	CARE BBB-; Stable / 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 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/Non-fund-based-LT/ST	LT/ST	109.75	CARE BBB-; Stable / CARE A3	1)CARE BB+; Positive / CARE A4+ (30-May-24)	1)CARE BB+; Stable / CARE A4+ (20-Nov-23) 2)CARE BB+; Stable / CARE A4+ (10-Apr-23)	-	-
2	Fund-based - LT-Term Loan	LT	-	-	1)CARE BB+; Positive (30-May-24)	-	-	-

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 the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

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### About us:

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