Kanoria Chemicals & Industries Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	91.78	CARE BBB (RWN)	Placed on Rating Watch with Negative Implications
Short-term bank facilities	65.00	CARE A3+ (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Kanoria Chemicals & Industries Limited (KCIL) have been placed under credit watch with negative implications following the disclosure of order received from Gujarat Pollution Control Board (GPCB) regarding closure of Industrial Plant at Ankleshwar, Dist. Bharuch, on stock exchange on September 21, 2024. The company received order from Gujarat Pollution Control Board (GPCB) dated September 20, 2024, for closure for alleged discharge of contaminated rain water into GIDC storm water drain. The plant was shutdown after completion of safety-related work on September 25, 2024. CARE Ratings Limited (CARE Ratings) will continue to monitor the developments in this regard and accordingly take a final rating action once there is clarity regarding the impact of this event on the company's business and financial risk profile of the company.

Ratings assigned to KCIL's bank facilities factors in continued moderation in financial performance in FY24 (refers to period April 1 to March 31) 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 FY24. However, post imposition of anti-dumping duty on Penta by Ministry of Finance Department of Revenue, Government of India on May 16, 2024, improvement in the company's financial performance in current fiscal year 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 profitability vulnerable to volatility in input prices and high exposure in group companies leading to low return on capital employed (ROCE). CARE Ratings also notes commissioning of 115,000 TPA formaldehyde plant and 6000 TPA hexamine plant at Ankleshwar from September 2024.

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 to gross cash accruals (TD/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: Not applicable

Detailed description of 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.

Satisfactory capital structure, though with moderation in debt protection matrices

KCIL's overall gearing has been comfortable at 0.22x as on March 31, 2024, majorly due to high net worth, having remained almost stable from 0.19x as on March 31, 2023. TD/GCA moderated to 8.74x as on March 31, 2024, as against 4.44x as on March 31, 2023.

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

Commissioning of formaldehyde and hexamine plant

The company has set up a 115,000 TPA formaldehyde plant and 6000 TPA Hexamine Plant at Ankleshwar. The plant commissioned in September 2024. This new capacity at Ankleshwar will cater to growing demand in sectors such as Phenolic Resins, Textile, Agrochemicals, Explosives, Pharmaceuticals, among others, in the region and the exports markets.

Key weaknesses

Moderation in financial performance in FY24

The company achieved total operating income (TOI) of ₹578.53 crore in FY24 as against ₹681.10 crore in FY23 witnessing y-o-y decline of 15%. The company's PBILDT margin declined by 232 bps from 3.51% in FY23 to 1.19% crore in FY24. The same is majorly considering decline in average selling price of Pentaerythritol, penta, due to dumping of penta by China, Saudi Arabia, Taiwan, and some of the European countries. There was decline in average sales realisation across all products of the company due to industry driven demand supply dynamics. In FY24, the company has reported loss of ₹1.12 crore as against profit after tax (PAT) of ₹5.93 crore in FY23.

In Q1FY25, the company has reported PAT of ₹1.64 crore on TOI of ₹162 crore as against PAT of ₹3.79 crore on TOI of ₹153 crore in Q1FY24.

High exposure in group companies

The company has fund-based exposure in subsidiary companies through investment and loans and advances amounting to ₹330 crore as on March 31, 2024 (₹310 crore as on March 31, 2023) accounting for 52% (48% in FY23) of its standalone net worth as on March 31, 2024. KCIL has extended corporate guarantee (around ₹167 crore outstanding as on March 31, 2024; loan o/s against CG ₹116 crore) for loans availed by subsidiary companies. Considering loan o/s against CG, exposure to subsidiaries would amount to 70% of its standalone net worth as on March 31, 2024 (69% as of March 2023). Also, management has articulated 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.

Volatile raw material prices

Raw material prices, especially for methanol, have been volatile in the last 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 (₹16.35 crore) against scheduled repayment obligations in FY24, above unity current ratio and moderate utilisation of working capital limits in the last 12 months ending August 2024 standing at around 70% (as articulated by the bankers). CARE Ratings observes, going forward, the company is expected to generate sufficient cash accruals to meet the debt repayment obligations.

Environment, social, and governance (ESG) risks- Not applicable

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 firm 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 is engaged in denim manufacturing and APAG Holding AG, Switzerland engaged in the design, development, and manufacturing electronic control units (ECUs) and LED-based concept or design lighting modules primarily for the automotive industry.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	681.10	578.53	161.68
PBILDT	23.91	6.87	6.52
PAT	5.93	-1.12	1.64
Overall gearing (times)	0.19	0.22	NA
Interest coverage (times)	2.52	0.60	2.20

A: Audited, UA: Unaudited, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not applicable
Disclosure of Interest of Managing Director & CEO: 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-Cash credit		-	-	-	30.00	CARE BBB (RWN)
Fund-based - LT-Term loan		-	-	November, 2027	61.78	CARE BBB (RWN)
Non-fund-based - ST-BG/LC		-	-	-	65.00	CARE A3+ (RWN)

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	Non-fund-based - ST-BG/LC	ST	65.00	CARE A3+ (RWN)	1)CARE A3+ (02-Apr-24)	1)CARE A2 (06-Jun-23)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (07-Jan-22)
2	Fund-based - LT-Cash credit	LT	30.00	CARE BBB (RWN)	1)CARE BBB; Stable (02-Apr-24)	1)CARE BBB+; Stable (06-Jun-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)
3	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	-	1)Withdrawn (07-Jan-22)
4	Fund-based - LT-Term loan	LT	61.78	CARE BBB (RWN)	1)CARE BBB; Stable (02-Apr-24)	1)CARE BBB+; Stable (06-Jun-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Jan-22)

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

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

Annexure 4: Complexity level of 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 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.

Contact us

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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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