KPL International Limited

August 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	65.89 (Reduced from 76.41)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	100.00 (Reduced from 115.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**165.89 (Rs. One Hundred Sixty-Five Crore and Eighty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of KPL International Limited (KPL) continues to take into consideration healthy profitability margins, comfortable financial risk profile marked by low overall gearing and healthy debt coverage indicators. Further, the ratings continue to derive strength from its experienced promoters, its diversified service offering with wide array of products in chemical segment, stable cash flows to KPL from its wind power plant and diverse client base. These rating strengths are, however, partially offset by moderation in scale of operations in FY21 (refers to the period from April 01 to March 31), exposure of the company towards credit risk profile of its customers, foreign exchange rate fluctuations risk, susceptibility of the profitability margins towards volatility in goods prices traded by the company and competitive nature of industry.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations above Rs.800.00 crore with ROCE above 16% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in scale of operations with ROCE below 12% on a sustained basis.
- Elongation in operating cycle and weakening of liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

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 M.D., 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 A-; Stable/CARE A2+) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Limited (rated CARE A-; Stable/CARE A2+) engaged in manufacturing of jute products.

Diverse revenue stream with wide array of products in chemicals trading segment trading segment: Though KPL is majorly into trading of chemicals, polymers and speciality chemicals (comprising 89.25% of the total gross revenue in FY21) but the company also has diversified business like indenting of specific products (based on a fixed commission) (comprising 3.55% of the total gross revenue in FY21) and trading of industrial gases (comprising 3.31% of the total gross revenue in FY21). KPL has further diversified its business by entering into renewable energy sector (generating and selling of wind power) (comprising 3.07% of the total gross revenue in FY21) and also has Avongrove tea estate (sale of tea) (comprising 0.79% of the total gross revenue in FY21) located near Darjeeling. However, in terms of profitability, the PBILDT contribution from trading of chemicals stood at 45.08% of total PBILDT in FY21, the PBILDT contribution from indenting of specific products stood at 17.94% of the total PBILDT in FY21, and the PBILDT contribution from selling of wind power stood at 26.09% of the total PBILDT in FY21 while the remaining PBILDT contribution coming from trading of industrial gases and sale of tea. The company deals in trading of more than 1000 chemicals/ chemical products (polymers, speciality chemicals, fluorine and fine chemicals, paper and performance chemicals) and engineering products in its repertoire having applications in various industries such as

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

tyre manufacturing (rubber) industry, paint industry, plastic industry, dyes and intermediaries, glass industry, pharmaceutical industry, paper industry, agro, cement and various other industries.

Diverse customer base: KPL procures most of its goods from foreign market and top 5 suppliers of the company constituted around 61% of total goods purchased by the company in FY21 (around 69% in FY20). KPL is representative of their suppliers for selling their specific set of products in Indian market. Further, KPL has a broad customer base as evident by top 5 customers forming only 14.07% of the total sales of the company from trading business in FY21 (PY: 16.07%).

Stable source of revenue generation from wind 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-; Stable/ A1+). The capacity utilization factor of the plants declined from around 28% in FY19-FY20 to 22% in FY21 owing to temporary closure of one of the plants and low wind speed during FY21. Out of 15.35 MW capacity, 14.10 MW of power plant are in the state of Gujarat with 4.2 MW power plant in Matalpar; 8.40 MW power plant in Jamanwada and 1.50 MW power plant in Vejalpur. 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. During FY21, KPL generated total revenue of Rs.11.90 crore (PY: Rs.14.77 crore) from wind power plants.

Comfortable financial risk profile: Capital structure of the company improved in FY21 as reflected by improvement in overall gearing from 0.99x as on March 31, 2020 to 0.29x as on March 31, 2021 on account of various reasons including nil working capital borrowings outstanding as on balance sheet date, repayment of term loan (constituting ~81% of total debt as on March 31, 2021), and accretion of profits to net-worth. Further, the company is using its non-fund based sanctioned limits of Rs.100.00 crore (outstanding letter of credit of Rs.5.94 crore as on March 31, 2021) for trading of chemicals. Net worth of the company stood at Rs.109.22 crore as on March 31, 2021.

Key Rating weaknesses

Moderation in scale of operations albeit improvement in profitability margins in Q1FY22 (refers to the period from April 01 to June 30): The total operating income of KPL deteriorated on y-o-y basis by 21.07% from Rs.493.54 crore in FY20 to Rs.389.54 crore in FY21 primarily on account of reduction in gross revenue generation from trading of chemicals which declined from Rs.432.75 crore in FY20 to Rs.345.55 crore in FY21. Further, the PBILDT margin of the company declined to 9.04% in FY21 (PY: 9.72%) due to decline in scale of operations leading to under-absorption of employee costs. The same led to decline in the PAT margin from 4.90% in FY20 to 3.24% in FY21. The decline in scale of operations and the PBILDT margin has resulted in decline in ROCE from 19.83% in FY20 to 15.95% in FY21. However, for Q1FY22, the total operating income of the company increased by 17.60% to Rs.107.73 crore (PY: Rs.91.61 crore). Further, the PBILDT margin of the company improved substantially to 11.85% during Q1FY22 (PY: 5.04%) primarily on account of decrease in cost of procurement of traded goods and raw material procurement cost as a percentage of total sales from ~92% in Q1FY21 to ~85% in Q1FY22. The same led to improvement in the PAT margin from 1.06% in Q1FY21 to 7.02% in Q1FY22.

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 result in bad debts for the company. Company has reported bad debts to the tune of Rs.0.11 Crore during FY21. Trade receivables of the company stood at Rs.56.50 crore as on March 31, 2021, out of which Rs.0.10 crore is from related parties (Rs.81.04 crore as on March 31, 2020 out of which Rs.2.06 crore is from related parties).

Susceptibility to volatility in goods prices (stock holding risk): KPL imports majority of the chemicals traded 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 traded 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 is able to pass on any increase in the cost of traded goods to its customers for the majority of 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.1.36 crore in FY21 and Rs.1.63 crore in FY20 was paid by the company to enter into contracts). Further, during FY19, KPL had entered into Swap agreement for conversion of rupee term loan into Euro loan. As a result, KPL is also exposed to forex risk on account of its exposure in Euro term loan (interest and repayments) and any adverse movement of Euro w.r.t. rupee can affect the financial risk profile of the company but company is also booking commissioning income in foreign currency, which provides natural hedge and offsets this risk. KPL had booked a net forex gain of Rs.0.63 crore in FY21 as against loss of Rs.0.60 crore in FY20.

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: Liquidity is marked by average working capital utilization of the company which stood low at 10.04% for the trailing 12 months ended June, 2021. Company has free cash and bank balance to the tune of Rs.2.85 crore as on June 30, 2021. Further, the company is scheduled to repay Rs.10.15 crore during FY22 against projected gross cash accruals to the tune of Rs.29.51 crore in FY22. The operating cycle of the company remained comfortable at 43 days in FY21 (45 days in FY20). No moratorium has been availed by the company.

Analytical approach: Standalone

Applicable Criteria
CARE's methodology for wind power projects
Criteria on assigning outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Rating Methodology- Wholesale Trading
CARE's methodology for financial ratios (Non-Financial Sector)
CARE's methodology for liquidity analysis of Non-financial Sector entities

About the Company
KPL international Limited is majorly into marketing/ trading of quality 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 chemical and chemical related products (89.25% of total gross revenue in FY21 and 88.25% of total gross revenue in FY20). Further, as a part of diversification plans, KPL acquired the Avongrove Tea Estate located near Darjeeling in the state of West Bengal and the company also forayed into renewable energy sector with generation capacity of 15.35 MW wind turbine electrical power. KPL belongs to S. S. Kanoria Group with major group companies belonging to group are Kanoria Chemicals and Industries Limited (rated CARE A-; Negative/CARE A2+) engaged in manufacturing of chemicals and Ludlow Jute & Specialties Ltd. (rated CARE A-; Stable/CARE A2+) engaged in manufacturing and selling of jute products.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	493.54	389.54
PBILDT	47.99	35.23
PAT	24.16	12.60
Overall gearing (times)	0.99	0.29
Interest coverage (times)	7.50	6.14

A: Audited
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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	December, 2023	22.89	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	43.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	80.00	CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	22.89	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (15-Nov-19)	1)CARE BBB+; Stable (10-Oct-18)
2.	Fund-based - LT-Cash Credit	LT	43.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (30-Sep-20)	1)CARE BBB+; Stable (15-Nov-19)	1)CARE BBB+; Stable (10-Oct-18)
3.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A2+	-	1)CARE A2+ (30-Sep-20)	1)CARE A2+ (15-Nov-19)	1)CARE A2 (10-Oct-18)
4.	Non-fund-based - ST-Working Capital Limits	-	-	-	-	-	-	1)CARE A2 (10-Oct-18)
5.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A2+	-	1)CARE A2+ (30-Sep-20)	-	-

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

Annexure 4: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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