KPL International Limited

September 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	76.41 (reduced from 86.14)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	115.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Facilities	191.41 (Rupees one hundred ninety one crore and forty one 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) takes into account stable operations characterized by healthy profitability, 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 exposure of the company towards credit risk profile of its customers, foreign exchange rate fluctuations risk and susceptibility of the profitability margins towards volatility in goods prices traded by the company.

Rating Sensitivities

Positive Factors

- Diversification in its traded products and supplier base
- Improvement in overall gearing to below 0.7 times

Negative Factors

- Deterioration in overall gearing beyond 1.25 times
- 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 MD, 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 manages the day to day operations of the company.

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 but the company also has diversified business like indenting of specific products (based on a fixed commission) and trading of industrial gases. KPL has further diversified its business by entering into renewable energy sector (generating and selling of wind power) and also has Avongrove tea estate located near Darjeeling. The revenue from trading of chemicals and chemical related products comprises of 88.25% of total gross revenue in FY20 (91.11% in FY19). 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 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 69% of total goods purchased by the company in FY20 (around 64% in FY19). 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 16.07% of the total sales of the company from trading business in FY20 (PY: 22.71%).

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

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 was around 28% for FY19 & FY20. 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 FY20, KPL generated total revenue of Rs.14.77 crore (PY: Rs.15.30 crore) from wind power plants.

Stable scale of operations

The total operating income of KPL deteriorated marginally on y-o-y basis by 3.96% from Rs.513.88 crore in FY19 to Rs.493.54 crore in FY20 primarily on account of reduction in gross revenue generation from trading of chemicals which declined from Rs.464.76 crore in FY19 to Rs.432.75 crore in FY20. Despite decline in total operating income, PBILDT margin improved marginally from 9.41% in FY19 to 9.72% in FY20. The same has resulted in improvement of ROCE from 18.45% in FY19 to 19.83% in FY20. Further, PAT margin of the company improved marginally from 4.87% in FY19 to 4.90% in FY20 primarily on account of reduced interest expenses. GCA has consistently improved from Rs.27.58 crore in FY18 to Rs.35.27 crore in FY20.

Comfortable financial risk profile

Capital structure of the company improved in FY20 as reflected by improvement in overall gearing from 1.23x as on March 31, 2019 to 0.99x as on March 31, 2020 primarily on account on repayment of term loan (constituting ~38% of total debt as on March 31, 2020) and marginal decrease in working capital borrowings (constituting ~39% of total debt as on March 31, 2020) due to marginal decrease in scale of operations during FY20. Further, the company is using its non-fund based sanctioned limits of Rs.115.00 crore (outstanding letter of credit of Rs.21.95 crore as on March 31, 2020) for trading of chemicals. Net worth of the company stood at Rs.96.60 crore as on March 31, 2020.

Key Rating weaknesses

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.4.83 Crore during FY20 (for which the company had already made a provision to the tune of ~Rs.4.83 crore up to FY14). Trade receivables of the company stood at Rs.81.04 crore as on March 31, 2020, out of which Rs.2.06 crore is from related parties (Rs.68.36 crore as on March 31, 2019 out of which Rs.8.84 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 (almost 100%) 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.1.63 crore in FY20 and Rs.1.60 crore in FY19 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 to the some extent offsets this risk. KPL had booked a net forex loss of Rs.0.60 crore in FY20 as against gain of Rs.0.62 crore in FY19.

Liquidity: Adequate

Liquidity is marked by average working capital utilization of the company which stood low at 45.25% for the trailing 12 months ended July, 2020. Company has free cash and bank balance to the tune of Rs.2.38 crore as on June 30, 2020. The company is projected to repay Rs.10.90 crore during FY21. The operating cycle of the company remained comfortable at 45 days in FY20 (37 days in FY19). No moratorium has been availed by the company.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook and credit watch to credit ratings
CARE’s methodology for wind power projects
CARE's policy on Default recognition
CARE’s criteria on Short term ratings
Rating Methodology- Wholesale Trading
Financial Ratios-Non Financial sector
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 (88.25% of total gross revenue in FY20 and 91.11% of total gross revenue in FY19). 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 A1) 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)	FY19 (A)	FY20 (A)
Total operating income	513.88	493.54
PBILDT	48.38	47.99
PAT	25.04	24.16
Overall gearing (times)	1.23	0.99
Interest coverage (times)	4.90	7.50

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	33.41	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	43.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	95.00	CARE A2+
Fund-based - ST-Working Capital Demand loan	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	33.41	CARE BBB+; Stable	-	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 (15-Nov-19)	1)CARE BBB+; Stable (10-Oct-18)	-
3.	Non-fund-based - ST-BG/LC	ST	95.00	CARE A2+	-	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.	Fund-based - ST-Working Capital Demand loan	ST	20.00	CARE A2+	-	-	-	-

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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