KPL International Limited

November 15, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	86.14 (enhanced from Rs. 73.00 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	115.00 (enhanced from Rs. 105.00 crore)	**CARE A2+ (A Two Plus)**	**Revised from CARE A2 (A Two)**
Total facilities	**201.14 (Rs. Two Hundred One crore and Fourteen Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the short term bank facilities of KPL International Limited (KPL) takes into account the improvement in its liquidity position as reflected by its adequate unutilized fund based limits and liquid investments available with the company. The rating revision also factors in comfortable financial risk profile of the company characterized by its growing scale of operations and profitability, improved debt service coverage ratios and adequate capital structure. Further, the ratings continue to derive strength from its experienced promoters, its diversified service offering with wide arrays of products in chemical segment, stable cash flows to KPL from its wind power plant and sound distributed network with reputed supplier 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

Going forward, the ability of the company to sustain its growing scale of operations with effective management of its working capital requirement and volatility in traded goods prices and forex risk would be the key rating sensitivities.

Positive Factors

- Diversification in its traded products and supplier base
- Sustained improvement in operating income and profit margin from non-wind operations of the company
- Improvement in Capital Structure with sustenance of Overall gearing (including acceptances) below 1.00x (Overall Gearing of 1.23x as on March 31, 2019)
- Total Debt to gross cash accruals (GCA) reducing below 2.50x on a sustained basis (Total Debt to GCA of 3.04x for FY19)

Negative Factors

- Significant increase in debtors with ageing more than 180 days
- Overall gearing (including acceptances) rising above 1.80x on a sustained basis.
- PBILDT / Interest inching below 3.00x for any given year going forward

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 arrays of products in Chemicals 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 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.

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

The revenue from trading of chemicals and chemical related products comprises of 91.11% of total gross revenue in FY19 (91.65% in FY18). 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 bucket list 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.

Within trading, KPL deals in stock and sales and High Sea Sales. These segments contribute almost equally to the bucket of trading income of the company. Further, KPL is also in indenting business (commission basis), which is having higher profitability margins and in which the company acts as an intermediary between the supplier and purchaser of the product. The company gets benefitted from its long standing relationship with their suppliers. In Indenting business, KPL assists their principals in sourcing their specific requirements as it possesses strong domain knowledge of different chemicals & related products including their respective suppliers.

Sound distribution network & broad client base

KPL procures most of its goods from foreign market and top 5 suppliers of the company constituted around 64% of total goods purchased by the company in FY19 (around 57% in FY18). KPL is representative of their suppliers for selling their specific set of products in Indian Market.

Further, KPL has a broad customer base and has a lower dependence on certain customer base as evident by top 5 customers forming only 22.71% of the total sales of the company from trading business in FY19 (PY: 21.22%).

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+). 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 offtake risk. Further, KPL also has a 1.25 MW power plant in Sangli, Maharashtra with offtake agreement with MSEDCL for the period of March 26, 2019 to March 25, 2020 as per agreement dated May 07, 2019 (earlier agreement was with MSEDCL for 13 years starting from March, 2006 till March, 2019). During FY18, KPL has generated total revenue of Rs. 15.09 crore in its first full year of operations of all the wind power plants.

Growing scale of operations with improving profitability margins

The total operating income of KPL though improved on y-o-y basis by 18.72% during FY19 and at a compounded annual growth rate (CAGR) of 22.66% over the last 3 years for the period of FY16-FY19 owing to higher demands witnessed from chemicals, polymers and special chemicals traded by the company and increased realizations (as prices are linked with crude oil) but remains moderate at Rs. 513.88 crore in FY19. The gross revenue generation from trading of the chemicals has grown from Rs. 251.07 crore in FY16 to Rs. 464.76 crore in FY19 at a healthy CAGR of 22.78%.

The PBILDT Margin of the company improved from 9.14% in FY18 to 9.41% in FY19 owing to increased contribution from indenting income, which is having higher profitability margins as compared to pure trading business. The revenue from commissioning business increased from Rs. 13.89 crore in FY18 to Rs. 18.41 crore in FY19.

PAT of the company has improved from Rs. 6.71 crore in FY18 (PAT Margin of 1.55%) to Rs. 25.04 crore in FY19 (PAT Margin of 4.87%) owing to reduced interest cost, depreciation cost, deferred tax and improved operational performance in FY19. During FY18, company has deferred tax charges of Rs. 6.39 crore as against Rs. 0.49 crore in FY19, which resulted in lower PAT in FY18.

Adequate Capital Structure

The company has reduced its reliance on external borrowing for the working capital limits in FY19 along with its increased scale of operations. Though the scale of operations of the company has grown from Rs. 432.86 crore in FY18 to Rs. 513.88 crore in FY19, however its short term borrowings reduced from Rs. 55.65 crore as on March 31, 2018 to Rs. 40.25 crore in FY19 as the company has supported its growing scale of operations from its profitability. Further, company is using its non-fund based sanctioned limits of Rs. 115 crore (outstanding Letter of Credit of Rs. 18.49 crore as on March 31, 2018, Rs. 28.56 crore as on March 31, 2019 and Rs. 41.59 crore as on Sep 30, 2019) for trading of chemicals. Tangible Net worth of the company increased from Rs. 69.93 crore as on March 31, 2018 to Rs. 95.25 crore as on March 31, 2019 owing to accretion of profits into the net worth. Overall Gearing of the company (Including Acceptances /Creditors on LC) improved from 1.92x as on March 31, 2018 to 1.23x as on March 31, 2019. Interest Cost of the company decreased from Rs. 12.57 crore in FY18 to Rs. 9.87 crore in FY19 as a result of reduced borrowings and lower interest cost of the company with conversion of rupee term loan into Euro loan at lower rates and Interest Coverage Ratio of the company improved from 3.15x in FY18 to 4.90x in FY19. Further, Total Debt to GCA improved from 4.85x as on March 31, 2018 to 3.04x as on March 31, 2019.

Liquidity: Adequate

The operating cycle of the company remains comfortable at 37 days in FY19 (37 days in FY18). Due to the competitive nature of the trading business, the company has to give credit period of 45-60 days to its customers (average collection period of 43 days in FY19 and 41 days in FY18) and also the company has to stock the material in advance based on past trends of the customer order and expected market demand for stock and sales segment of its trading business. In general, the company has a policy to stock inventory for the expected demand of around 2 months (average inventory period of 26 days in FY18). Against this, the company receives the credit period of around 30 days from its suppliers (average creditor period of 30 days in FY19 and 31 days in FY18). So, due to this inherent mismatch, the company has to rely on internal accruals, short term borrowings for financing its working capital needs and to sustain its growing scale of operations. But still, the average working capital utilization of the company for the fund based limits remains comfortable at 42.00% in the past 12 months ending July, 2019.

Further, company had investments in Venture Capital Fund (Ask Pravi Equity Opportunity Fund) of amount Rs. 7.50 crore as on March 31, 2019 maturing in October, 2020. Current Ratio of the company improved to 1.07x as on March 31, 2019 from 0.83x as on March 31, 2018 owing to reduced short term borrowings and increase in trade receivables. Trade receivables of the company increased from Rs. 49.09 crore as on March 31, 2018 to Rs. 68.36 crore as on March 31, 2019.

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 into the bad debts for the company. Trade receivables of the company stood at Rs. 68.36 crore as on March 31, 2019, out of which Rs. 8.84 crore is from related parties (Rs. 49.09 crore as on March 31, 2018 out of which Rs. 4.37 crore is from related parties). Around 90% of debtors as on March 31, 2019 and around 87% of debtors as on Sep 30, 2019 are due from less than 180 days.

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. 1.60 crore in FY19 and Rs. 1.57 crore in FY18 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. The company pays interest and installments as per the original rupee term loan agreements, however, such payments of interest and installments are credited back by Bank to the company's account, and simultaneously the company pays interest and installments in equivalent Euro as per terms of Swap agreements. As a result, KPL is also exposed to forex risk on account of its exposure into 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 offset this risk. KPL had booked a net forex income of Rs. 0.62 crore in FY19 as against losses of Rs. 0.28 crore in FY18.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology- Wholesale Trading

About the Company

KPL International Limited (KPL) was originally incorporated as Kanoria Alkalis and Plastics Limited on April 17, 1974 and the name of the company changed to Kanoria Petroproducts Limited on June 24, 1985 and further to its present name (KPL International limited) on March 22, 2000. KPL is majorly in the 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 (91.11% of total gross revenue in FY19 and 91.65% of total gross revenue in FY18). 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+; Stable/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.

With ISO 9001 quality certification and process specialization in marketing, distribution and sourcing, KPL represents 35 global giants and services over 3,000 customers. KPL provides a basket of services and end-to-end solutions to its customers through its regional offices at Delhi (HQ), Mumbai, Chennai, Kolkata and Bengaluru; and international offices at Shanghai, Dhaka and Dubai and has warehousing facilities in major Indian cities (Delhi, Sonepat, Palwal, Mumbai, Chennai, Ankleshwar, Kolkata etc).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	432.86	513.88
PBILDT	39.54	48.38
PAT	6.71	25.04
Overall gearing (times)	1.92	1.23
Interest coverage (times)	3.15	4.90

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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 -1	-	-	September 2020	1.87	CARE BBB+; Stable
Term Loan-Long Term -2	-	-	October 2023	32.57	CARE BBB+; Stable
Term Loan-Long Term -3	-	-	December 2022	8.70	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	43.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	115.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	43.14	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Oct-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	43.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (10-Oct-18)	-	-
3.	Non-fund-based - ST-BG/LC	ST	115.00	CARE A2+	-	1)CARE A2 (10-Oct-18)	-	-

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

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