Kanoria Chemicals & Industries Ltd

April 6, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	83.00	**CARE A; Negative (Single A; Outlook: Negative)**	**Revised from CARE A+ ; Stable (Single A Plus; Outlook: Stable)**
Short-term Bank Facilities	40.00	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Long/Short-term Bank Facilities	14.00	**CARE A; Negative /CARE A1 (Single A; Outlook: Negative/A One)**	**Revised from CARE A+ ; Stable/ CARE A1 (Single A Plus; Outlook: Stable/ A One Plus)**
Total Bank Facilities	**137.00 (Rupees one hundred and thirty seven crore only)**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kanoria Chemicals & Industries Ltd (KCIL) factor in the increasing debt levels and moderation in the financial performance in 9MFY20 (refers to period April 1 to Dec 31) thereby impacting the debt coverage indicators. The revision also factor in the substantial corporate guarantee exposure and depleting reserves of liquid investments owing to substantial exposure in overseas subsidiaries with one of the subsidiary having weak financial risk profile. Such high exposure in subsidiaries without commensurate returns have led to weak return on capital employed.

The ratings continue to derive comfort from the experience of the promoters, long track record of operations of the company in the chemicals business and moderate capital structure.

The ratings continue to factor in the risk of fluctuation in profitability due to volatility in input prices and project risk.

Key Rating Sensitivities

Positive Factors:

- Decrease in total exposure to group companies below Rs.150 crore (including Corporate Guarantee) on sustained basis.
- Increase in scale of operations (>Rs.500 crore) on a sustained basis.
- Return on Capital Employed moving beyond 12% on a sustained basis.

Negative Factors

- Decline in PBILDT margin (<7%) on a sustained basis.
- Deterioration in overall gearing (>0.60x) and TD/GCA (>7x) on a sustained basis.

Outlook: Negative

The outlook has been revised to ‘Negative’ in view of expectation of low return on capital employed on the back of funding for cash losses and/or meeting debt repayment obligations of group companies.

The outlook may be revised to ‘Stable’ if the company is able to improve its return metrics by substantially lowering its exposure in group companies through their monetization and/or through repatriations from its subsidiaries.

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

Detailed Description of key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations of the company in the chemical segment

KCIL has an operational track record of more than five decades in the chemical business. Mr. R.V. Kanoria (son of Late S. S. Kanoria), CMD, takes care of day-to-day affairs of the company and has more than three decades of experience in the business.

Stable financial performance in FY19, however, moderation in margin in 9MFY20 due to volatility in raw material price

KCIL's income from operations grew 29% y-o-y to Rs.456 crore in FY19 mainly due to higher sales volume and realization in the formaldehyde, hexamine and phenyl formaldehyde resin. The PBILDT margin was stable at 7.88% in FY19 (7.71% in FY18).

During 9MFY20, the margins came under pressure and decreased from 7% in 9MFY19 to 5% in 9MFY20 due to decline in sales volume of Pentaerythritol, due to lower end user industry demand and stiff competition from imports and sudden decrease in prices of methanol in Q2FY20 and Q3FY20 which also resulted in an immediate decrease in prices of formaldehyde (produced with methanol procured earlier at higher costs).

Satisfactory capital structure marked by deterioration in debt coverage indicator in 9MFY20

KCIL's overall gearing has been comfortable due to high net worth and stood at 0.20x as on March 31, 2019 (0.17x as on March 31, 2018). The total debt/GCA continued to be moderate at more than 4x as on March 31, 2019. On account of increasing exposure in group companies adjusted gearing deteriorated to 0.70x as on March 31, 2019 as against 0.61x as on March 31, 2018.

As on December 31, 2019, the overall gearing stood at 0.23x, however, TDGCA deteriorated significantly at above 10x as on December 31, 2019 on account of increase in debt coupled with lower GCA during the interim period.

Key Rating Weaknesses

High exposure in group companies

The company has investment in subsidiary companies in the form of investment and loans & advances amounting to Rs.235.16 crore as on March 31, 2019 (Rs. 189.61 crore as on March 31, 2018) accounting for 39% (31% in FY18) of its net-worth. Further, KCIL has extended corporate guarantee (Rs.183 crore outstanding as on March 31, 2019; loan o/s against CG Rs.141 cr.) for loans availed by subsidiary companies. As on March 24, 2020 fund based exposure and loan o/s against non fund based exposure was Rs.256 crore and Rs.129 crore respectively.

Around Rs.321 crore (inc. Corporate guarantee) exposure was in subsidiary Kanoria Africa Textiles PLC Ethiopia (KAT) which has been reporting cash losses and KCIL has been supporting its loan repayments where it has extended corporate guarantee.

Volatile raw material prices

Raw material prices, especially for methanol have been volatile over the past few years. This is mainly due to volatility in the crude oil prices coupled with volatility in the global demand and supply matrix for methanol. This has also been impacting KCIL's profitability.

Project Risk

Project risk for the company has reduced with the company commissioning two out of three phases of expansion of its formaldehyde plant at Naidupeta in Andhra Pradesh for a total cost of Rs.48 crore funded out of mix of debt and internal accruals/liquid investments. However, successful execution and completion of the project is to be seen.

Liquidity: Adequate

Liquidity is marked by unutilized banking limits, with average of month end utilization of 67% for the last twelve months ended Feb 2020. However, the company relies on other short term financing to fund its working capital needs. Cash accruals in FY21 is expected to be adequate to meet the scheduled repayment obligation of during the year. Liquidity is also supported by cash and cash equivalent of Rs.46 crore as on December 31, 2019 (including earmarked money for debt taken) of which Rs.30.3 crore in mutual funds and alternative investments funds and balance in cash and fixed deposits.

Analytical Approach: Standalone. Exposure in the group companies has also been factored in the rating.

Applicable Criteria

Criteria on assigning Outlook & Credit watch to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments

[Financial ratios - Non Financial Sector](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

About the Company

Kanoria Chemicals & Industries Ltd. (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 the manufacture of Alco Chemicals primarily Pentaerythritol, Formaldehyde and Hexamine. The company has a solar power plant of 5.0 MW capacity in Jodhpur, Rajasthan.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	352.78	456.44
PBILDT	27.21	35.98
PAT	5.60	7.65
Overall gearing (times)	0.17	0.20
Interest coverage (times)	3.85	5.61

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
Non-fund-based - ST-BG/LC	-	-	-	40.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A; Negative
Fund-based/Non-fund-based-LT/ST	-	-	-	14.00	CARE A; Negative / CARE A1
Fund-based - LT-Term Loan	-	-	October 2027	73.00	CARE A; Negative
Commercial Paper	-	-	-	0.00	Withdrawn

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	-	-	-	-	1)Withdrawn (28-Mar-18)	1)CARE A+; Stable (30-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A1	1)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (28-Mar-18)	1)CARE A1+ (30-Jan-17)
3.	Commercial Paper	ST	-	-	1)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (28-Mar-18)	1)CARE A1+ (30-Jan-17)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A; Negative	1)CARE A+; Stable (05-Apr-19)	-	1)CARE A+; Stable (28-Mar-18)	1)CARE A+; Stable (30-Jan-17)

5.	Fund-based/Non-fund-based-LT/ST	LT/ST	14.00	CARE A; Negative / CARE A1	1)CARE A+; Stable / CARE A1+ (05-Apr-19)	-	1)CARE A+; Stable / CARE A1+ (28-Mar-18)	1)CARE A+; Stable / CARE A1+ (30-Jan-17)
6.	Fund-based - LT-Term Loan	LT	73.00	CARE A; Negative	1)CARE A+; Stable (05-Apr-19)	-	-	-

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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