Kanoria Chemicals & Industries Ltd.

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long-term bank facilities – Term Loan	73.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Assigned**
Long-term bank facilities	10.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Short-term bank facilities	40.00 (reduced from Rs.55.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long/Short-term bank facilities	14.00	**CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable)/ (A One Plus)**	**Reaffirmed**
Instruments			
Commercial Paper	40.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**177.00 (Rs. One Hundred and Seventy Seven crore only)**		

Details of instruments/facilities in Annexure-1 **facility (term loan) has been fully paid off*

Detailed Rationale and Key Rating Drivers

The rating of Kanoria Chemicals & Industries Ltd. (KCIL) continues to draw strength from the experienced promoters with long & successful track record, satisfactory portfolio of liquid investments, albeit declining and satisfactory capital structure.

The rating is however constrained by volatility in the input prices, project risk and increasing exposure in one of the group entities (Kanoria Africa Textiles PLC Ethopia) with relatively weak credit profile.

Ability of the company to successfully stabilize and operate its overseas subsidiaries and generating profits in such companies (subsidiaries) shall be critical. Further KCIL's ability to maintain its capital structure, backed by its portfolio of surplus liquid funds shall remain the key rating sensitivities.

Detailed Description of key rating drivers

Key Rating Strengths

Experienced promoters

The promoters of KCIL have interest in the fields of chemicals, electronic automotive, textiles and jute with Mr. R.V. Kanoria (son of Late S. S. Kanoria), CMD, taking care of day-to-day affairs of the company. He 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.

Long and successful track record of operations

KCIL has been in operation since five decades and has over the years grown from a single product single location entity to a multi-product multi location company. Till FY11, the company was engaged in production of about 20 different industrial chemicals and chemical intermediates. The sale of chloro-chemical division has resulted in concentration of business risk profile to alco-chemicals and the size of the company in terms of revenue has also reduced. However, to mitigate the risk, the company has undertaken measures for diversification into other businesses segments (i.e. solar, textile and electronic automotive) at the group level.

Satisfactory portfolio of liquid investments albeit declining

Pursuant to the sale of Chloro chemicals division, the company generated significant amount of surplus funds. While the surplus is being used for new business ventures, the company has an outstanding surplus funds aggregating Rs.33.6 cr. as on December 31, 2018. The same has however decreased from Rs.254.71cr in FY13 to Rs.82.74 cr. in FY18 on account of increase in exposure to its subsidiaries.

Standalone financial risk profile remained satisfactory in FY18 & 9MFY19, albeit moderation in the profitability

The net sales at the standalone level have increased by 18.48% on Y-o-Y basis to Rs.333.39 cr. in FY18 mainly on account of higher sales volume in all its product segments coupled with increase in realization for Formaldehyde & Hexamine (combined represent 60.52% of total turnover of the company). Further, the operating margins are largely supported by interest income on Investments earned by the company over the years. However, raw material prices have increased during the said period leading to moderation in the operating margins in FY18. This coupled with increase in the interest

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

cost, attributable to higher utilization of working capital limits, led to deterioration in PAT margin during FY18. Accordingly, GCA though deteriorated, remained comfortable at Rs.27.31crore vis-à-vis debt repayment obligation in FY18.
Interest coverage ratio declined to 4.05x as on March 31, 2018 from 14.30x as on March 31, 2017 owing to increase in interest costs and decline in GCA level. Further, Total debt/GCA deteriorated from 2.51x as on March 31, 2017 to 3.70x as on March 31, 2018 mainly attributable to lower GCA level. However, Overall gearing and debt/equity ratios were comfortable at 0.17x and 0.05x as on Mar.31, 2018.
During the nine months ended Dec.31, 2018, the company reported a PAT of Rs.5.51 crore on a Total Income of Rs.354.3 crore.

Key Rating Weaknesses
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. During FY18 & 9MFY19 the methanol prices witnessed an average increase of around 22% and 39% vis-à-vis FY17.
Project Risks
The company is in process of setting up the third Formaldehyde plant (90,000 TPA) at Naidupeta, Andhra Pradesh for a total cost of Rs.48.26 crore which would be financed through mix of debt (Rs.38 cr.) and internal accruals (Rs.10.26 cr.). Till Feb 28, 2019, the company has already expended around Rs.29 cr. financed mainly out of debt. The Project is expected to be completed by June, 2019.
High exposure in group companies
The company has investment in subsidiary companies (in the form of Investment and Loans & Advances) amounting to Rs.189.61 cr. as on Mar'18 (Rs.173.5 crore as on Mar'17) accounting for 31.15% (28.3% in FY17) of its Net-worth. Further, KCIL has extended corporate guarantee (Rs.154.2 crore outstanding as on March 31, 2018) for loans availed by subsidiary companies.
KCIL has invested/ advanced Rs.94.53 cr. and has extended corporate guarantee of Rs.136.5 cr. to Kanoria Africa Textiles PLC Ethopia (KAT). KAT has setup a textile unit (capacity – 12 mn mtr of denim) in Ethiopia. The subsidiary is currently operating at moderate level and has reported loss of Rs.11.30 crore in FY18. The company proposes to gradually ramp up the capacity post backward/ forward integration initiatives are in place.
Further, the company also has fund based investments (in the form of investment & advances) of Rs.90.3 Cr. and has also extended corporate guarantee for a part of its term loan to APAG Holding AG (AHA). AHA has reported PBIT of Rs.15.0 cr. in FY18 vis-à-vis Rs.1.9 cr. in FY17. At the consolidated level, KCIL reported profit of Rs.11.6 Cr. in FY18 vis-à-vis loss of Rs.23.7 crore in FY17 mainly due to improvement in the performance of its subsidiary company KAT and AHA. Overall gearing ratio at the consolidated level marginally deteriorated from 0.71x as on Mar'17 to 0.74x as on Mar'18 due to mounting debt laden capex (for Textile unit in Ethiopia) against low profitability.
Industry Outlook
The chemical industry is one of the fastest growing in the world. The industry's growth is largely driven by country's consumption growth story. The major demands for the products are from paint and Medium Density Fiberboard (MDF) sector and the prospect of chemical industry is linked with fortune of these sectors which looks stable and promising. The rising disposable income and higher spend on home decor is expected to aid the consumption of decorative paints. Whereas, the demand for industrial paints are also likely to grow backed by growth in automobiles industry as it forms a significant component of industrial paints. Further the government's focus on infrastructure developments also augurs well for industrial paints. On the MDF side, the demand is healthy as it is replacing the cheaper plywood and growing at a rate of 12-15% p.a.

Liquidity Position
The operating cycle of the company has marginally improved in FY18 and remained satisfactory at 58 days vis-à-vis 67 days in FY17. This apart, KCIL had cash & Cash equivalents of Rs.82.73 cr. as on March 31, 2018 (as against Rs.121.95 cr. as on March 31, 2017).

Analytical Approach: Standalone. Exposure in the group companies has also been factored in the rating.
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

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.

Presently, the company has two manufacturing facilities, one at Ankleshwar, Gujarat, which manufactures Alco-chemical and related intermediates; and second at Visakhapatnam, Andhra Pradesh, which manufactures Formaldehyde Hexamine and Resins. Further, the company has a solar power plant of 5.0 MW capacity in Jodhpur, Rajasthan. These apart, the company has also invested in subsidiaries engaged in other line of business.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	313.8	354.12
PBILDT	46.7	28.6
PAT	18.7	5.6
Overall gearing (times)	0.19	0.17
Interest coverage (times)	14.3	4.1

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

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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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+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	14.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	Oct-27	73.00	CARE A+; Stable
Commercial Paper	-	-	-	40.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (28-Mar-18)	1)CARE A+; Stable (30-Jan-17)	1)CARE AA- (07-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A1+	-	1)CARE A1+ (28-Mar-18)	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (07-Oct-15)
3.	Commercial Paper	ST	40.00	CARE A1+	-	1)CARE A1+ (28-Mar-18)	1)CARE A1+ (30-Jan-17)	1)CARE A1+ (07-Oct-15)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Mar-18)	1)CARE A+; Stable (30-Jan-17)	1)CARE AA- (07-Oct-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	14.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (28-Mar-18)	1)CARE A+; Stable / CARE A1+ (30-Jan-17)	1)CARE AA- / CARE A1+ (07-Oct-15)
6.	Non-fund-based - LT-Letter of credit	LT	-	-	-	-	-	1)Withdrawn (07-Oct-15)
7.	Fund-based - LT-Term Loan	LT	73.00	CARE A+; Stable	-	-	-	-

CARE Ratings Professional Risk Opinion

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