Kesar Petroproducts Limited

February 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	10.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	**Rating reaffirmed Outlook revised to Negative from Stable**
Short-term Bank Facilities	5.00	CARE A3 (A Three)	**Reaffirmed**
Total facilities	**15.00 (Rupees Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kesar Petroproducts Limited (KPL) continues to derive strength from experienced management with long track record of operations, association with prominent downstream users the inks, rubber, plastic, textile and paint sectors along with moderate order book position from them, comfortable capital structure and debt coverage indicators and moderate liquidity position.

Rating strengths continues to be tempered by its moderate scale of operations, decline in moderate profit margins, working capital intensive nature of operations however; largely it is being met through internal sources and project execution and funding risk as debt is yet to be tied up. The ratings further continues to be constrained by susceptibility to profit margins due to fluctuations in the raw material prices and foreign currency exchange rates and its presence in highly competitive and fragmented chemical industry.

The ratings, however, KPL's ability to increase its scale of operations while improving profit margins, maintaining capital structure along with efficient management of working capital requirement are the key rating sensitivities

Outlook: Negative

The outlook is 'Negative' on account of decline in scale of operations along with gross cash accruals. Further the profit margins of the company also declined significantly. The outlook may be revised to 'Stable' if KPL is able to scale up its operations and improve its profit margins as envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record of operations: KPL has been in the chemical industry for more than two decades and over the years of its operations it has developed long standing relationships with customers and suppliers as reflected by the continuous receipt of orders on year on year basis. KPL is promoted by Sharma family with Chairman Mr. Dinesh Sharma and other directors Mr. Mohit Kaushik, Mr. Nazirsaheb Sayyed, Ms. Shehlata Sharma and Mr. K. D. Fatnani who have more than two decade of experience in chemical industry. Furthermore, the directors are further assisted by the experienced management team to carry out the day-to-day operations.

Reputed clientele: The company's clients comprise some of the most prominent downstream users in the inks, rubber, plastic, textile and paint sectors namely Sudarshan Chemicals Industries Limited, Jaysynth Dyestuff (I) Limited, Unilex Colours & Chemicals Limited, etc. and due to the long standing relationship with the clients, it is able to receive repeated orders.

Comfortable capital structure and debt coverage indicators: Company's capital structure and debt coverage indicators stood comfortable on account of sizable net worth base and low reliance on debt. Further, capital structure continues to remain comfortable with gearing level remained negligible as on 9MFY19. Further debt coverage indicators also continue to remain comfortable with total debt to GCA remained at 0.06x in 9MFY19 and interest coverage ratio of 10.51x in 9MFY19.

Moderate liquidity position: Liquidity position of the company continued to remain comfortable however company has low free cash and bank balance of Rs. 0.93 crore as on December 31, 2018 vis-à-vis Rs. 4.43 crore as on March 31, 2018.

Key Rating Weaknesses

Decline in scale operations: Total operating income of company declined significantly by 29.57% at Rs.31.92 crore in Q3FY19 vis-à-vis Rs. 45.32 crore in Q3FY18 and Rs. 40.44 in Q2FY19 and Rs. 122.23 crore in 9MFY19 vis-à-vis Rs. 1331.37 crore in 9MFY18 on account of lower orders executed by the company.

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

Decline in profit margins and remains susceptible to fluctuations in the raw material prices and foreign currency exchange rates: KPL's PBILDT margin has declined significantly to 7.14% in Q3FY19 vis-à-vis 24.75% in Q3FY18 on account of lower realization due to increase in prices of raw material and intense competition in the market during Q3FY19. PAT margin has also declined to 1.14% in Q2FY19 vis-à-vis 19.20% in Q2FY18 and 4.35% in Q1FY19 on account of increase in interest cost. Further, profit margins remain healthy, they are vulnerable to the changes in the raw material prices as raw material is the major cost driver and the prices of the same are volatile in nature as it is directly linked to the prices of crude oil which is highly volatile by nature therefore cost base remains exposed to any adverse price fluctuation in the prices of the raw material. Further, profitability of KPL is also exposed to fluctuations in foreign currency rates to certain extent, as the company imported around 20% of its materials from overseas markets during FY18. Furthermore the company doesn't get any benefits from natural hedge as 96% sales have been generated through local market during FY18. However, comfort can be drawn from the fact that KPL has foreign exchange gain of Rs.0.07 crore in FY18 vis-à-vis gain of Rs.0.12 crore in FY17. Thus with limited ability to pass on the changes in raw material prices in competitive operating spectrum, any substantial changes in raw material cost would the company's profitability.

Project execution and funding risk as debt is yet to be tied up: Currently company has undertaken a backward integration project wherein company is planning to add new machineries in the existing plants to manufacture sulphuric acid which is used as raw material to produce alpha blue. Execution of project is started in May 2018 and expected to be completed in June 2019. Total estimated cost of the project is Rs. 20.00 crore out of which Rs. 6.00 crore will be funded through internal accruals and rest Rs. 14.00 crore will be funded through term loan from bank. KPL expects new machineries to be operational from June 2019. Further company is also planning to install new machineries in its existing plants of around Rs. 10 crore which is proposed to be funded through internal accruals in FY19.

Presence in competitive and fragmented chemical industry: KPL operates in a highly competitive industry with many players operating in the field of chemical manufacturing. Furthermore, the competition is increasing as along with small players the medium and large players in the industry are also penetrating the market which further creating the pressure on profit margins and lead to low bargaining power against the reputed customers and elongated collection period.

Analytical Approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Kesar Pertoproducts Limited (KPL) was incorporated in 1990 by Mr. M C Bagrodia, which was engaged in manufacturing of chemical products. Later in 2008, KPL was brought by Sharma Family and currently it is engaged in manufacturing of pigments i.e. CPC blue crude, Alpha Blue and beta blue and dye intermediates i.e. K-acid, Gamma acid, Vinyl sulphonate and sulpho VS which find its application in ink, paint, textiles and plastic coating. KPL is managed by Chairman Mr. Dinesh Sharma and other directors Mr. Mohit Kaushik, Mr. Nazirsaheb Sayyed, Ms. Shehlata Sharma and Mr. K. D. Fatnani who have more than two decade of experience in chemical industry. It procures 80% of raw material from suppliers in domestic market and rest 20% is imported from Russia, Korea and UAE and final products are sold to domestic clients (constituted 96% to total sales in FY18) and rest is exported (constituted 4% to total sales in FY18). KPL has its corporate office in Mumbai and seven manufacturing units in Lote Parshuram, Ratnagiri with installed capacity of 27000 Metric tons pigments and dye intermediates per annum (capacity utilization remained 46% in FY18 vis-à-vis 39% in FY17). Currently company has undertaken a backward integration project wherein company is planning to add new machineries in the existing plants to manufacture sulphuric acid which is used as raw material to produce alpha blue.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	9MFY19 (UA)
Total operating income	174.43	180.00	122.23
PBILDT	27.28	40.36	8.41
PAT	20.08	30.55	3.89
Overall gearing (times)	0.08	0.00	0.003
Interest coverage (times)	44.47	187.74	10.51

A: Audited, UA: Unaudited

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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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.

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
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A3

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.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	1)CARE BBB-; Stable (25-Sep-18)	-	-	-
2.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A3	1)CARE A3 (25-Sep-18)	-	-	-

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