Kesar Petroproducts Limited

June 10, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	10.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	**Rating revised from CARE BBB- and outlook revised from Negative to Stable**
Short-term Bank Facilities	5.00	CARE A4+ (A Four Plus)	**Rating revised from CARE A3**
Total facilities	**15.00 (Rupees Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Revision in the ratings assigned to the bank facilitates of Kesar Petroproducts Limited (KPL) is on account of significant decline in the total operating income and significant decline in profit margins during FY19 along with loss at operating and net level in Q4FY19.

Further ratings continue 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 continue 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.

Ratings continue 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.

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale operations along with net losses: Total operating income of company declined significantly by 13.25% and stood at Rs. 156.15 crore in FY19 vis-à-vis Rs. 180.00 crore in FY18 and Rs. 33.93 crore in Q4FY19 vis-à-vis Rs. 31.92 crore in Q3FY19 on account of lower orders executed by the company. Further company has reported net loss of Rs. 0.32 crore in FY19 vis-à-vis net profit of Rs. 30.55 crore in FY18. Furthermore company incurred net loss of Rs. 4.21 crore in Q4FY19 vis-à-vis Rs. 1.27 crore in Q3FY19 on account of loss due to fire occurred in the factory of KPL which resulted in stock loss in Q4FY19.

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 2.21% in FY19 vis-à-vis 22.42% in FY18 on account of loss due to fire occurred in the factory of KPL which resulted in stock loss in Q4FY19. Further with significant decline in PBILDT margin and increase in interest and depreciation cost, the company has reported net loss of Rs. 0.32 crore in FY19 vis-à-vis net profit of Rs. 30.55 crore in FY18. 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 imports materials from overseas markets. Furthermore the company doesn't get any benefits from natural hedge as majority of sales have been generated through local market. 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.

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.

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

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 FY19. Further debt coverage indicators also continue to remain comfortable with total debt to GCA remained at 0.81x in FY19 vis-à-vis 0.17x in FY18 and interest coverage ratio of 3.14x in FY19 vis-à-vis 187.74x in FY18.

Moderate liquidity position: Liquidity position of the company continued to remain comfortable as KPL has current investment in mutual funds of Rs. 8.40 crore as on March 31, 2019 vis-à-vis Rs. 5.26 crore on March 31, 2018.

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 Petroproducts 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	Q4FY19
Total operating income	180.00	156.15	33.93
PBILDT	40.36	3.45	-4.94
PAT	30.55	-0.32	-4.21
Overall gearing (times)	0.00	0.01	0.01
Interest coverage (times)	187.74	3.14	Negative

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
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	5.00	CARE A4+

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.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	-	1)CARE BBB-; Negative (25-Feb-19) 2)CARE BBB-; Stable (25-Sep-18)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A4+	-	1)CARE A3 (25-Feb-19) 2)CARE A3 (25-Sep-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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