Khaitan Chemicals and Fertilizers Limited

February 02, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	172.55 (reduced from Rs.175.09 crore)	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	144.72 (reduced from Rs.154.72 crore)	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**317.27 (Rupees Three Hundred Seventeen crore and Twenty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Khaitan Chemicals and Fertilizers Ltd (KCFL) continue to take into account its established position in single super phosphate (SSP) segment of fertilizer industry and its experienced management. The ratings also take into account its stable profitability on the back of hedging of entire forex exposure and company's efforts to diversify its product profile with addition of new products viz. zincated and boronated SSP.

The ratings, however, continue to be constrained by its working capital intensive operations, moderate financial leverage, continued subdued performance of soya division due to price disparity in crushing operations, regulated nature of fertilizer industry and dependence of fertilizer and soya divisions on the vagaries of monsoon.

KCFL's ability to improve its scale of operations and profitability while continuing with its inventory management and hedging practices along with diversification in revenue profile and expanding its reach to a wider geography would be the key rating sensitivities. Improvement in financial leverage and efficient management of working capital would also be key credit monitorables.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: KCFL was promoted by Mr. Shailesh Khaitan in 1982. He is currently the Chairman and Managing Director of the company and has experience of nearly three decades in fertilizer and soya industry. He is also the chairman of 'SSP Advisory Committee' and is on the Board of 'Fertilizer Association of India'. Mr. Harsh Agnihotri, President & CFO, also has experience of more than a decade in fertilizer business and looks after the daily operations of the company. He is suitably aided by experienced professionals in the management of KCFL's operations.

Established position in the Single Super Phosphate (SSP) segment of fertilizer industry: KCFL is one of the largest SSP players in the fertilizer industry with an installed capacity of 1,113,500 metric tonnes per annum (MTPA) as on March 31, 2017 located across six locations in Western and Northern India, due to which KCFL enjoys a considerable share in the domestic market for this fertilizer. Also, KCFL has added fortified products like zincated SSP and boronated SSP to its product portfolio. During FY17, KCFL expanded its sales to states including Himachal Pradesh, West Bengal, Bihar and Assam which would aid KCFL in further strengthening its position in the fertilizer industry. Also, to diversify its portfolio, KCFL undertook trading of NPK fertilizers during FY17.

Stable operating profitability and moderate overall gearing; albeit decline in TOI: KCFL's total operating income (TOI) moderated by around 9% on y-o-y basis in FY17 mainly due to decline in income from the sale of fertilizers by around 6% on y-o-y basis. This was due to combined effect of marginally lower sales volume (5%) as well as decline in sales realization in-line with decline in raw material prices. Income from soya division also declined due its reduced operations owing to disparity in crushing operations. However, KCFL's PBILDT margin improved by 89 bps on y-o-y basis in FY17 with

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

some expansion in gross margin which was partially offset by higher employee costs and distribution expenses due to geographical expansion. KCFL continued to report moderate overall gearing of 1.93x as on March 31, 2017. A large part of the outstanding debt of KCFL was availed to fund its working capital requirements, amidst thin cash accrual generation. Debt coverage indicators (PBILDT interest coverage and total debt/ GCA) continued to remain moderate during FY17.

Key Rating Weaknesses

Working capital intensive nature of operations: KCFL's operations are working capital intensive in nature, particularly on account of imported raw material (lead time for inventory), seasonal demand (requirement to keep adequate inventory for peak sales), credit given to dealers/distributors and subsidy receivables. KCFL's operating cycle remained elongated at 274 days in FY17. Further, the liquidity of fertilizer players remains stressed in the later part of the financial year owing to slow payment of subsidy by the government, resulting in high utilization of working capital limits. During the 12 months ended November 2017, the utilization of KCFL's working capital limits remained high at 95%.

Susceptibility of profitability to volatility in raw material prices and forex rates along with high dependence on monsoon: Prices of KCFL's key raw materials i.e. rock phosphate (imported) and sulphuric acid have linkages with the global market and exhibit volatility with change in international prices as well as forex rates. Also, KCFL needs to maintain adequate inventory on account of seasonality associated with SSP consumption. Further, imports constitute a sizeable portion of KCFL's overall raw material requirements (65% in FY17), exposing its profitability to adverse movement in foreign exchange rates. However, from FY16 onwards, KCFL has started hedging its entire forex exposure, which translated in limited forex loss/gain in FY17. Further, KCFL is also exposed to adverse movement in price of soya been seeds and price of end products in its soya bean processing division, which are dependent on various factors including rainfall in the major growing regions of the country.

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
Rating Methodology - Fertilizer Companies
Financial ratios - Non- Financial Sector

About the Company

KCFL, incorporated in 1982, primarily deals in two business viz. fertilizer and soya. In the fertilizer division, it is engaged in manufacturing of SSP (a phosphatic fertilizer) and sulphuric acid, whereas soya division manufactures refined soya oil and de-oiled cake (DOC). In addition to the manufacturing facilities for SSP, the company also has a manufacturing facility for producing sulphuric acid (installed capacity of 270,600 MTPA), oil seed solvent extraction (420,000 MTPA) and edible oil refining (30,000 MTPA) as on March 31, 2017. It markets its SSP under the brand name of '*Khaitan*' and '*Utsav*' and soya refined oil under the brand name of '*Khaitan Vegetable Oil*'. During FY17, fertilizers division comprised 96% (94% in FY16) of its total sales while the balance was from soya division.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	394.08	360.59
PBILDT	41.71	41.36
PAT	1.66	1.79
Overall gearing (times)	1.83	1.93
Interest coverage (times)	1.40	1.32

A: Audited

During H1FY18, KCFL reported a PAT of Rs.0.42 crore on a total operating income of Rs.172.23 crore, compared with a PAT of Rs.0.32 crore on a total operating income of Rs.174.68 crore.

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
Fund-based - LT-Term Loan	-	-	2023	37.55	CARE BBB-; Stable
Non-fund-based-Short Term	-	-	-	134.72	CARE A3
Fund-based - LT-Working Capital Limits	-	-	-	135.00	CARE BBB-; Stable
Fund-based - ST-SLC-WC	-	-	-	10.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	37.55	CARE BBB-; Stable	-	1)CARE BBB- (05-Oct-16)	1)CARE BBB- (28-Dec-15)	1)CARE BBB- (23-Feb-15)
2.	Non-fund-based-Short Term	ST	134.72	CARE A3	-	1)CARE A3 (05-Oct-16)	1)CARE A3 (28-Dec-15)	1)CARE A3 (23-Feb-15)
3.	Fund-based - LT-Working Capital Limits	LT	135.00	CARE BBB-; Stable	-	1)CARE BBB- (05-Oct-16)	1)CARE BBB- (28-Dec-15)	1)CARE BBB- (23-Feb-15)
4.	Fund-based - ST-SLC-WC	ST	10.00	CARE A3	-	1)CARE A3 (05-Oct-16)	1)CARE A3 (28-Dec-15)	1)CARE A3 (23-Feb-15)

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