Khaitan Chemicals and Fertilizers Limited

October 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	-	-	Reaffirmed and Withdrawn
Short term Bank Facilities	-	-	Reaffirmed and Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Khaitan Chemicals & Fertilizers Ltd (KCFL) continue to take into account its established position in single super phosphate (SSP) segment of the fertilizer industry and its experienced management. The ratings also favorably factor in KCFL's efforts towards geographical expansion and continue to be underpinned by its stable profitability on the back of hedging of entire forex exposure.

The ratings, however, continue to be constrained by KCFL's working capital intensive operations, its moderate financial leverage and debt coverage indicators and susceptibility of its profitability to volatility in raw material prices & forex rates. The ratings further continue to be constrained by the continued subdued performance of soya division due to price disparity in crushing operations, regulated nature of fertilizer industry and dependence of fertilizer & soya business on the vagaries of monsoon.

CARE has consequently **reaffirmed** the outstanding ratings of **'CARE BBB-; Stable/ CARE A3' [Triple B Minus; Outlook: Stable/ A Three]** for the various bank facilities of **KCFL**; and has simultaneously **withdrawn** the ratings with immediate effect on the request of the company along with receipt of 'No Objection Certificate' from its lenders that had extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management: KCFL is 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. Further, the promoters have also supported the operations of KCFL with infusion of unsecured loans, the balance of which stood at Rs.19.06 crore as on June 30, 2019 (Rs.16.21 crore as on September 30, 2018).

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 11,13,500 metric tonnes per annum (MTPA) as on June 30, 2019 with manufacturing facilities situated across six locations in Western and Northern India; Due to this, KCFL enjoys considerable share in the domestic SSP fertilizer market. KCFL has also expanded its marketing network to North Eastern states to further strengthen its position in the fertilizer industry. Also, to diversify its portfolio, KCFL has added fortified products like zincated SSP and boronated SSP to its product portfolio along with trading of NPK fertilizers to penetrate in the fertilizer value chain.

Stable profitability: During FY19, KCFL reported a marginal growth of 5% y-o-y in its total operating income (TOI) primarily driven by increase in sulphuric acid sales due to spurt in demand with temporary closure of some major processing plants in Southern India and reduced output from a major facility in Western India which offset the decline in sales of SSP during the period. Performance of the soya division continued to remain subdued during FY19. KCFL's PBILDT margin improved by 111 bps y-o-y during FY19 due to favorable movement in the price of sulphuric acid. Furthermore, KCFL reported a healthy y-o-y growth of 26% in its TOI during Q1FY20. However, its PBILDT margin reduced by 374 bps y-o-y in Q1FY20 to 10.37% with normalization in prices of sulphuric acid.

Key Rating Weaknesses

Moderately leveraged capital structure and debt coverage indicators: KCFL's capital structure remained moderately leveraged with an overall gearing of 1.16x as on March 31, 2019 (1.63x as on March 31, 2018). The improvement in the same

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

was on the back of lower outstanding debt as on end FY19 with decline in working capital bank borrowings due to decline in outstanding subsidy receivables from Rs.74.16 crore as on March 31, 2018 to Rs.65.01 crore as on March 31, 2019 as well as lower outstanding trade receivables from Rs.98.62 crore as on March 31, 2018 to Rs.59.02 crore as on March 31, 2019; both of which were due to lower sales of SSP during FY19. KCFL's overall gearing deteriorated marginally to 1.49x as on June 30, 2019 mainly due to increase in working capital bank borrowings. KCFL's debt coverage indicators improved and continued to be moderate marked by interest coverage of 1.97x, total debt/ PBILDT of 3.66x and total debt/GCA of 8.70x in FY19 due to higher operating profit and cash accruals coupled with lower outstanding debt as well as interest cost.

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 discrete sales), credit given to dealers/distributors and outstanding subsidy receivables. Owing to this, KCFL's operating cycle remained elongated at 196 days in FY19. However, it improved from 255 days in FY18 due to lower collection period with decline in outstanding subsidy receivables and trade receivables as at the year end.

Susceptibility of profitability to volatility in raw material prices and forex rates: The 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. While sulphuric acid prices had risen in FY19 due to supply shortage which benefitted KCFL, overall trend for the same continues to remain volatile. Also, KCFL needs to maintain adequate inventory on account of seasonality associated with SSP consumption. Furthermore, imports constituted around 32% (P.Y.: 58%) of KCFL's overall raw material requirements in FY19, exposing its profitability to adverse movement in foreign exchange rates. However, from FY16 onwards, KCFL has started hedging its entire forex exposure, which has translated in nominal forex loss in FY19.

Regulated nature of fertilizer industry along with high dependence on monsoon: The fertilizer industry being activity allied to the agriculture sector, it is highly regulated and monitored by the government to ensure adequate control over the quality, price and distribution of fertilizers. Also, demand for fertilizers is dependent on adequacy and distribution of monsoon in a particular region. Furthermore, KCFL is also exposed to adverse movement in price of seeds and end products in its soyabean processing division, which are dependent on various factors including rainfall in the major growing regions of the country.

Liquidity – Stretched: KCFL's liquidity remained stretched on account of its inherently elongated operating cycle which stood at 196 days in FY19. Also, the average utilization of its fund-based working capital limits remained moderately high at 84% during trailing twelve months ended August 2019 which leaves only some space for meeting the funding requirements for any exigencies. With higher sales of sulphuric acid during FY19 along with lower sales of SSP, utilization of limits during the last 12 months ended August 2019 was lower than that in preceding 12 months due to shorter credit period for sulphuric acid sales as well as lower subsidy receivables. Term loan repayment requirements of KCFL are in the range of around Rs.3-13 crore p.a. over the next three years (FY20 –FY22), which are expected to be met through internal accruals. Further, the promoters have infused funds in the past to support KCFL's urgent requirements (including debt repayments), a management policy which is expected to continue as per their articulation.

Analytical approach: Standalone

Applicable Criteria
CARE's policy on withdrawal of ratings
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, has presence in two business segments viz. fertilizers & chemicals and soya. In the fertilizer & chemical division, KCFL is engaged in manufacturing of SSP (a phosphatic fertilizer) and sulphuric acid, whereas its soya division manufactures refined soya oil and de-oiled cake (DOC). As on June 30, 2019, KCFL had total installed capacity of 11,13,500 MTPA for manufacturing of SSP, 270,600 MTPA for sulphuric acid, 420,000 MTPA for oil seed solvent extraction and 30,000 MTPA for edible oil refining. KCFL markets SSP under the brand name of 'Khaitan' and 'Utsav' and soya refined oil under the brand name of 'Khaitan Vegetable Oil'.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	355.16	373.07
PBILDT	37.71	43.77
PAT	1.64	7.90
Overall gearing (times)	1.63	1.16
Interest coverage (times)	1.43	1.97

A: Audited

Furthermore, during Q1FY20, KCFL reported a TOI of Rs.106.75 crore with a PAT of Rs.2.35 crore as against a TOI of Rs.84.75 crore and PAT of Rs.3.05 crore reported in Q1FY19.

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-Term Loan	-	-	-	0.00	Withdrawal based on NOC
Non-fund-based-Short Term	-	-	-	0.00	Withdrawal based on NOC
Fund-based - LT-Working Capital Limits	-	-	-	0.00	Withdrawal based on NOC
Fund-based - ST-SLC-WC	-	-	-	0.00	Withdrawal based on NOC

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-Term Loan	LT	-	Withdrawal based on NOC	-	1)CARE BBB-; Stable (03-Dec-18)	1)CARE BBB-; Stable (02-Feb-18)	1)CARE BBB- (05-Oct-16)
2.	Non-fund-based-Short Term	ST	-	Withdrawal based on NOC	-	1)CARE A3 (03-Dec-18)	1)CARE A3 (02-Feb-18)	1)CARE A3 (05-Oct-16)
3.	Fund-based - LT-Working Capital Limits	LT	-	Withdrawal based on NOC	-	1)CARE BBB-; Stable (03-Dec-18)	1)CARE BBB-; Stable (02-Feb-18)	1)CARE BBB- (05-Oct-16)
4.	Fund-based - ST-SLC-WC	ST	-	Withdrawal based on NOC	-	1)CARE A3 (03-Dec-18)	1)CARE A3 (02-Feb-18)	1)CARE A3 (05-Oct-16)

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Harshveer Trivedi
Contact no.- +91-79-4026 5610
Email ID – harshveer.trivedi@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. - +91-7904026 5656
Email ID – deepak.prajapati@careratings.com

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