Khaitan Chemicals and Fertilizers Limited

December 03, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	164.24 (reduced from Rs.172.55 crore)	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	125.37 (reduced from Rs.144.72 crore)	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**289.61 (Rupees Two hundred Eighty Nine crore and Sixty One lakh only)**		

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 with establishment of marketing network in some of the North Eastern states during FY18 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 which albeit improved over the last one year and susceptibility of KCFL's profitability to volatility in raw material prices & forex rates. The ratings are further constrained by continued subdued performance of soya division due to price disparity in crushing operations, regulated nature of fertilizer industry and dependence of fertilizer & soya divisions on the vagaries of monsoon.

KCFL's ability to improve its scale of operations and profitability aided by growth in sales of fertilizers and continuing with its inventory management and hedging practices along with greater geographical reach would be the key rating sensitivities. Improvement in financial leverage and efficient management of working capital would also be the key credit monitorable.

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. Further, the promoters have also supported the operations of KCFL with infusion of unsecured loans, the balance of which stood at Rs.16.21 crore as on September 30, 2018 (Rs.20.43 crore as on March 31, 2017).

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 September 30, 2018 located across six locations in Western and Northern India; Due to this, KCFL enjoys considerable share in the domestic SSP fertilizer market. Also, during FY18, KCFL expanded its marketing network to North Eastern states including West Bengal, Tripura, Mizoram and Assam which is expected to aid it in further strengthening 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 FY18, KCFL's TOI remained stable compared to that in the previous year, as the lower sales volume of SSP was offset by higher trading income from NPK fertilizers & soya de-oiled cakes. Performance of the soya division continued to remain subdued during FY18. KCFL's operating profit margin moderated by around 83 bps on y-o-y basis in FY18 due to higher raw material cost incurred by KCFL which could not be passed on to the customers as well as higher proportion of trading income which fetches relatively lower margin. However, KCFL reported healthy y-o-y growth in its TOI during H1FY19. This was largely due to increase in sales volumes as well as price of sulphuric acid due to shortage of the acid in some markets, while SSP sales remained stable. Increase in prices of sulphuric acid also translated into better operating profitability during H1FY19.

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

Key Rating Weaknesses

Moderately leveraged capital structure and debt coverage indicators; albeit some improvement over the last one year: KCFL's capital structure remained moderate with overall gearing of 1.63x as on March 31, 2018 (1.93x as on March 31, 2017). The improvement was driven by reduction in debt following realization of subsidy in H2FY18. The capital structure remained stable during H1FY19 with no new debt availed to fund any capex requirements and largely stagnant working capital bank borrowings. While KCFL's debt coverage indicators improved over the last one year, they continued to remain elevated marked by a Total Debt/GCA of 20.91x in FY18.

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 outstanding subsidy receivables. Owing to this, KCFL's operating cycle continued to remain elongated at 255 days in FY18. Outstanding subsidy receivables which had moderated as on FY18 end to Rs.73.63 crore again increased to Rs.106.24 crore as on October 31, 2018 due to additional claims lodged during the first seven months of FY19. With shift towards direct benefit transfer (DBT) regime for subsidy claim, the impact of the same on outstanding position of subsidy receivable remains to be seen. The average utilization of fund based working capital limits remained high at 95% for the past twelve months ended September 2018, particularly due to seasonal nature of SSP sales in the first half of the financial year. Adequate control over working capital requirements and reduction in the outstanding bank borrowings availed to fund it, thereby translating into lower leverage and debt servicing requirements would be crucial from the credit perspective.

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 have risen in H1FY19 which has benefited 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. Further, imports constitute a sizeable portion of KCFL's overall raw material requirements (58% in FY18), 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 limited forex loss in FY18.

Regulated nature of fertilizer industry along with high dependence on monsoon: The fertilizer industry being an activity allied to the agriculture sector, it is highly regulated and monitored by the government to make sure there is 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 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.

Liquidity: KCFL's liquidity remained moderate marked by high utilization of around 95% (average for the past 12 months ended September 2018) of its fund based working capital limits of Rs.145.00 crore, which leaves little space for meeting the funding requirements for any exigencies. This is largely due to high outstanding subsidy receivables from the government, apart from the regular credit provided to the dealers/distributors as well as inventory maintenance requirements due to seasonal nature of business. Term loan repayment requirements are in the range of around Rs.10-12 crore p.a. over the next three years (FY19 – FY21), which are expected to be met through internal accruals, given KCFL's largely stable profitability and cash accrual generation. 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.

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, 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 September 30, 2018, 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'. During FY18, fertilizer & chemical division contributed 89% of KCFL's total sales while the balance was from soya division.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	360.59	355.16
PBILDT	41.27	37.71
PAT	1.66	1.64
Overall gearing (times)	1.93	1.63
Interest coverage (times)	1.32	1.43

A: Audited

During H1FY19, KCFL reported a total income of Rs.203.56 crore with a PAT of Rs.5.90 crore as against a total income of Rs.172.73 crore and a PAT of Rs.0.42 crore during H1FY18.

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	-	-	September 2023	29.24	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	135.00	CARE BBB-; Stable
Non-fund-based-Short Term	-	-	-	115.37	CARE A3
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 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-Term Loan	LT	29.24	CARE BBB-; Stable	-	1)CARE BBB-; Stable (02-Feb-18)	1)CARE BBB- (05-Oct-16)	1)CARE BBB- (28-Dec-15)
2.	Fund-based - LT-Working Capital Limits	LT	135.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (02-Feb-18)	1)CARE BBB- (05-Oct-16)	1)CARE BBB- (28-Dec-15)
3.	Non-fund-based-Short Term	ST	115.37	CARE A3	-	1)CARE A3 (02-Feb-18)	1)CARE A3 (05-Oct-16)	1)CARE A3 (28-Dec-15)
4.	Fund-based - ST-SLC-WC	ST	10.00	CARE A3	-	1)CARE A3 (02-Feb-18)	1)CARE A3 (05-Oct-16)	1)CARE A3 (28-Dec-15)

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