

## Kriti Industries (India) Limited

September 25, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	85.53 (enhanced from Rs.64.62 crore)	<b>CARE BBB+; Stable</b> <b>(Triple B Plus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	2.00 (reduced from Rs.3.00 crore)	<b>CARE A2</b> <b>(A Two)</b>	<b>Reaffirmed</b>
Long/Short-term Bank Facilities	127.02 (enhanced from Rs.110.88 crore)	<b>CARE BBB+; Stable/ CARE A2</b> <b>(Triple B Plus; Outlook: Stable/ A Two)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>214.55</b> <b>(Rupees Two Hundred Fourteen Crore and Fifty Five Lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kriti Industries (India) Limited (KIL) continue to derive strength from the vast experience of the promoters coupled with established operations in plastic pipes and fittings business, KIL's widespread distribution network and long standing relationship with diversified reputed clientele and growing demand for agriculture and irrigation pipes backed by higher infrastructure spending by government along with favorable schemes to boost farm incomes. The ratings further derive strength from KIL's financial risk profile marked by growth in total operating income along with stable profitability and debt coverage indicators.

The ratings, however, continue to remain constrained by susceptibility of profitability to volatile raw material prices with linkages to crude oil prices and forex rates, seasonality associated with demand of KIL's products, oligopolistic supply market of its key raw material and intense competition in plastic pipes industry which limits the profitability margins. The ratings further constrained on account of working capital intensive nature of operations leading to moderate capital structure.

The ability of KIL to improve its profitability amidst the volatile raw material prices, improvement in capital structure and debt coverage indicators and effective management of working capital management shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced and competent management:** Mr Shiv Singh Mehta, aged 59 years, is the *Managing Director* of KIL. He is a qualified B.E. (Bachelors in Electronics and Communication Engineering) and done his master in Business Administration. He has a total work experience of more than 25 years and looks after the overall operations of the company. Further, the board of directors of KIL also consists of independent directors namely, Mr Manoj Fadnis, Ex-president of ICAI and Mr Rakesh Kalra, Ex-MD of Eicher Motors Limited.

**Established operations having diverse industry applications:** KIL has over two decade of experience in the plastic pipe industry with state of the art-manufacturing unit, infrastructure, equipment and other facilities with a total installed capacity of 84,400 Metric Tonne Per Annum (MTPA) as on March 31, 2018. The products manufactured find application in various industries such as agriculture, telecom cables and gas transportation, infrastructure or building products and drip irrigation which provides significant opportunity to grow. To cater increase demand for high density polyethylene pipes (HDPE) pipe from water projects and telecom sector, KIL is expanding and modernizing its facility at exiting unit. The total cost of project is Rs.23.50 crore which is expected to be funded by term debt of Rs.16.50 crore and remaining through internal accruals. KIL has already spent about Rs.4.50 crore as on August 15, 2018 through internal accruals. The project is expected to start gradually from December 2018.

**Wide-spread distribution network and diversified and reputed clientele:** The Company sells PVC pipes under brand "Kasta". It has a wide spread network of approximately 600 dealers across 15 states in the country with central India, mainly Madhya Pradesh (MP) being the company's primary target market. KIL enjoys a long standing relationship with some of the reputed customers including companies from City Gas distribution, Telecom and Infrastructure etc., apart from others. Further, KIL's customer base continues to be fairly diversified with the top 5 customers forming 29% of the net sales for FY18.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Growth in the total operating income backed by increase in sales volume:** After witnessing decline in total operating income during FY17 over FY16 (due to demonetization), the total operating income of KIL reported a y-o-y growth of 19% during FY18 largely due to increase in sales volumes of its products coupled with marginal increase in average sales realization. PVC pipes segment is the major contributors to the KIL's revenue mix. Due to implementation of Goods & Service Tax (GST) in July 2018, the demand of PVC pipes was impacted followed by supply chain disruption in un-organized agriculture segment. Despite, disruption in demand, the overall sales volumes of pipes grew by 15% in FY18 over FY17. Further, with relatively stable profitability, the debt coverage indicators marked by Interest coverage and total debt to GCA ratios remained largely stable and moderate during FY18 over FY17.

**Growing demand for PVC pipes supported by government schemes:** Demand outlook for the Indian plastic pipes is expected to be stable with increase in government spending on construction & infrastructure along with a thrust to the agriculture sector by way of higher targeted production and productivity and more availability of credit and focus on micro-irrigation segment with schemes such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), SWACHH Bharat Mission, Smart Cities Mission, etc. Moreover, demand from telecom sector is also expected to drive growth.

#### Key Rating Weakness

**Modest profitability margins:** The profitability margins continue to remain modest due to its presence in competitive plastic pipe industry. Further, the overall PBILDT margin declined during FY18 over FY17 due to subdued performance during H1FY18 on the back of GST implementation. Furthermore, the profitability margins were also impacted due to increase in overhead cost which the company was not able to pass on to its customers due to competitive market.

**Working Capital intensive operation:** The operation of KIL is highly working capital marked by long gross operating cycle days (collection + debtors) of around 110-120 days. KIL funds large part of its working capital requirement through bank borrowings both fund based and non-fund based limits. KIL normally avails Letter of credit (LC) facility with usance period of 90 days which in turn allows longer credit period with its suppliers. With its continued high reliance on bank limits, the capital structure marked by an overall gearing ratio and current ratio remained moderate as on March 31, 2018.

**Volatile raw material prices and oligopolistic supply market:** The major raw materials required are plastic polymers contributing to about 90% of total raw material cost. The price of the same is linked to crude oil prices which are volatile in nature. Further, the domestic polymer supply industry is oligopolistic in nature with presence of a few players. The top five suppliers to KIL constituted 82% of its total raw material supply for FY18, with Reliance Industries Limited (RIL) holding the majority 43% share.

**Low product differentiation resulting into high competition in the plastic pipes segment:** Indian plastic pipe manufacturing industry is highly fragmented with around half of the players in the unorganized sector, resulting in high competition and limited pricing power with the players, with pressure on realizations. KIL faces the stiff competition from nationwide brands like 'Astral', 'Prince', 'Finolex', 'Euroline', 'Supreme', 'Ashirwad' etc. Further, high competitive scenario restricts the profitability margins. However, KIL has strong presence in Madhya Pradesh and Rajasthan where its brand 'Kasta' enjoys strong market share.

**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

Promoted by Mr Shiv Singh Mehta in 1990, KIL is engaged in the production of plastic pipes, ducts and mouldings after demerger of its solvent extraction division into a separate entity named Kriti Nutrients Ltd (KNL; rated CARE BBB+; Positive/ CARE A2) and of its auto component manufacturing division into a 100% subsidiary named Kriti Auto and Engineering Plastic Private Limited in January 2010. KIL's facilities are located at Pithampur, Madhya Pradesh with a total installed capacity of 84,400 metric tonne per annum (MTPA) for pipe manufacturing and 3,000 MTPA for pipe fittings/mouldings as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (Aud.)	FY18 (Aud.)
Total operating income	364.91	435.02
PBILDT	30.41	31.86
PAT	8.71	9.22
Overall gearing (times)	1.53	1.66
Interest coverage (times)	2.51	2.54

During Q1FY19, as per un-audited results, KIL reported a net profit of Rs.5.09 crore on total operating income of Rs.170.47 crore as against Rs.3.12 crore and Rs.146.89 crore during Q1FY18 respectively.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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-Cash Credit	-	-	-	50.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	127.02	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	March 2022	35.53	CARE BBB+; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	2.00	CARE A2

**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	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+ (06-Oct-16)	1)CARE BBB (29-Sep-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	127.02	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (05-Oct-17)	1)CARE BBB+ / CARE A2 (06-Oct-16)	1)CARE BBB / CARE A3+ (29-Sep-15)
3.	Term Loan-Long Term	LT	35.53	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+ (06-Oct-16)	1)CARE BBB (29-Sep-15)
4.	Fund-based - ST-Standby Line of Credit	ST	2.00	CARE A2	-	1)CARE A2 (05-Oct-17)	1)CARE A2 (06-Oct-16)	1)CARE A3+ (29-Sep-15)

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CIN - L67190MH1993PLC071691