

Kriti Industries (India) Limited

October 01, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	77.83 (reduced from Rs.85.53 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	2.00	CARE A2 (A Two)	Reaffirmed
Long/Short-term Bank Facilities	127.02	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Reaffirmed
Total	206.85 (Rupees Two Hundred Six Crore and Eighty Five Lakh only)		

¹Details 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 its promoters, established operations in plastic pipes and fittings business with penetration in newer geographies leading to healthy growth in scale of operations in last few years, its widespread distribution network, diversified and 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, however, continue to remain constrained due to moderate profitability which declined in FY19 (FY refers to the period from April 1 to March 31), high leverage and susceptibility of its profitability to volatile raw material prices (due to linkages with crude oil) and forex rates. The ratings are further constrained due to seasonality associated with demand of KIL's products, oligopolistic supply market of its key raw materials and competitive plastic pipes manufacturing industry.

The ability of KIL to increase its scale of operations with improvement in its profitability, capital structure and debt coverage indicators with effective management of working capital shall be the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths

Vast experience of promoters: Mr Shiv Singh Mehta, aged 60 years, is the Chairman and Managing Director of KIL. He is a qualified B.E. (Bachelors in Electronics and Communication Engineering) and Master in Business Administration. He has total work experience of more than 25 years and looks after the overall operations of the company. Mr. Mehta is assisted by his son Mr. Saurabh Singh Mehta in the capacity of Director and his wife Mrs. Purnima Mehta in the capacity of whole time director in the overall functioning of the company. Further, the board of directors of KIL also consists of reputed independent directors namely, Mr Manoj Fadnis, Ex-president of ICAI and Mr Rakesh Kalra, Ex-MD of Eicher Motors Limited.

Promoters have also floated Kriti Nutrients Limited (KNL; rated CARE BBB+; Positive/CARE A2) which is engaged in the extraction of soya oil from soya seeds, refining of crude soya oil and manufacturing of other value added products at its manufacturing facility located at Madhya Pradesh.

Established operations in plastic pipes and fittings business with penetration in newer geographies leading to healthy growth in scale of operations: KIL has over two decades of experience in the plastic pipe industry with strong presence in Madhya Pradesh and Rajasthan catering to the demand from agriculture and industrial segments. In overall product mix, agriculture segment forms 64% of net sales (drip irrigation proportion is low at 3% of net sales) in FY19 while industry segment forms 36% of net sales which includes various industries like telecommunication and gas transportation which together forms 30% of net sales and infrastructure and building products forms 4% of net sales. KIL operates through its sole manufacturing facility at Pithampur (Madhya Pradesh) and during FY19, KIL had completed the expansion and modernization of its plant to cater the increased demand of industrial sector from water projects and telecom sector. Its installed capacity had increased from 84,400 metric tonnes per annum (MTPA) as on March 31, 2018 to 1,12,800 MTPA as on June 30, 2019. The project cost was Rs.23.50 crore which was funded by term debt of Rs.16.50 crore and remaining through internal accruals.

During FY19, it had expanded its operation in the newer market including Maharashtra and Telangana and witnessed strong demand which supported the healthy growth in scale of operation during FY19. The total operating income (TOI) of KIL grew by of 31% from Rs.435.02 crore in FY18 to Rs.570.94 crore during FY19 with overall sales volume growth of 26%. PVC pipes

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

segment is the major contributor to KIL's revenue mix. Also, as per provisional results for Q1FY20, KIL had reported TOI of Rs.221.41 crore (Q1FY19:Rs.170.47 crore) a 30% Y-o-Y growth.

Wide-spread distribution network with diversified and reputed clientele: KIL sells PVC pipes under brand "Kasta". It has a wide spread network of approximately 650 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 27% of the net sales for FY19 (FY18:29%).

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. Various central and state government initiatives to develop tier- II and tier- III cities along with development of construction and infrastructure sector, target to construct 50 million houses by FY22 and rural drinking water programme is expected to increase demand for plastic pipes. Moreover, demand from telecom sector as well as city gas distribution (CGD) segment is also expected to drive future growth in industrial segment.

Liquidity: Adequate

KIL's liquidity position is marked by adequate cash accruals against low long terms debt repayment obligations of Rs.7-8 crore, moderate working capital limit utilization and long gross current assets 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. Avg. utilization of fund based working capital limits for past twelve months ended August 31, 2019 remained at 54.91% whereas avg. utilization of non-fund based working capital limits for past twelve months ended August 31, 2019 remained at 65.33%. Its current ratio and quick ratio remained modest at 1.08 times and 0.45 times respectively as on March 31, 2019 as compared to 1.03 times and 0.38 times respectively as on March 31, 2018. Cash flow from operation remained moderate at Rs.15.29 crore during FY19 and it had cash and bank balance of Rs.0.03 crore (excluding margin money of Rs.11.74 crore) as on March 31, 2019.

Key Rating Weaknesses

Moderate profitability which declined in FY19 and its high leverage: Profit before interest, lease, depreciation and tax (PBILDT) margin had declined by 189 bps from 7.32% in FY18 to 5.43% in FY19 mainly on account of higher business development expense incurred by the company for expansion in the newer geographies whose benefit is expected to accrue over 1-3 years. Profit after tax (PAT) margin also declined by 96 bps from 2.12% in FY18 to 1.16% in FY19 in line with decline at PBILDT level and increase in interest cost. However, profitability had improved in Q1FY19 wherein KIL had reported TOI of Rs.221.41 crore with PBILDT and PAT margin of 7.03% and 3.07% respectively.

The capital structure of the company was marked by high overall gearing of 1.85 times as on March 31, 2019 which deteriorated from 1.66 times as on March 31, 2018 on the back of debt funded capex and increased working capital borrowings. Total debt had increased from Rs.132.02 crore as on March 31, 2018 to Rs.156.98 crore as on March 31, 2019. Further, its debt coverage indicators moderated marked by total debt to gross cash accruals (TDGCA) and PBILDT interest coverage ratio at a moderate level of 10.78 times and 2.10 times respectively in FY19 as compared to 8.03 times and 2.54 times respectively during FY18.

Susceptibility of its profitability to volatile raw material prices and forex rates: Plastic polymers is the major raw material for KIL which accounts for around 93% of the total raw material cost during FY19 (FY18: 90%) and its price is directly linked to the crude oil prices which are volatile in nature, thus affecting the profit margins. The domestic manufacturers are also affected by forex volatility affecting crude oil prices and import duty changes on polymers. This further adds to the price volatility of polymers.

Oligopolistic supply market and low product differentiation resulting into high competition in the plastic pipes segment: The domestic polymer supply industry is oligopolistic in nature with presence of a few large players. KIL's supplier base is concentrated with majority of its raw material requirement (60-70%) being met by domestic players and rest from import market.

A significant portion of the Indian plastic pipes industry comprises of unorganized players on account of low entry barriers and commoditized nature of the product resulting in high competition and limited pricing power. KIL faces stiff competition from nationwide brands like 'Astral', 'Prince', 'Finolex', 'Euroline', 'Supreme', 'Ashirwad' etc. Further, high competitive scenario restricts the profitability margins of the players. However, KIL has strong presence in Madhya Pradesh and Rajasthan where its brand 'Kasta' enjoys healthy market share in agriculture segment.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Promoted by Mr Shiv Singh Mehta in 1990, KIL (CIN: L25206MP1990PLC005732) is engaged in the manufacturing of plastic pipes, ducts and mouldings after demerger of its solvent extraction division into a separate entity named Kriti Nutrients Limited (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 (KAEPPL) in January 2010.

KIL's facilities are located at Pithampur, Madhya Pradesh with a total installed capacity of 1,12,800 metric tonne per annum (MTPA) for pipe manufacturing and 3,000 MTPA for pipe fittings/mouldings as on June 30, 2019.

(Rs. crore)

Brief Financials	FY18 (A)	FY19 (A)
Total operating income	435.02	570.94
PBILDT	31.86	31.01
PAT	9.22	6.61
Overall gearing (times)	1.66	1.85
Interest coverage (times)	2.54	2.10

A: Audited

As per provisional results, KIL earned a PAT of Rs.6.80 crore on a TOI of Rs.221.41 crore in Q1FY20 as against a PAT of Rs.5.09 crore on a TOI of Rs.170.47 crore 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-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 2024	27.83	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 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	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Sep-18)	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+ (06-Oct-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	127.02	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (25-Sep-18)	1)CARE BBB+; Stable / CARE A2 (05-Oct-17)	1)CARE BBB+ / CARE A2 (06-Oct-16)
3.	Term Loan-Long Term	LT	27.83	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Sep-18)	1)CARE BBB+; Stable (05-Oct-17)	1)CARE BBB+ (06-Oct-16)
4.	Fund-based - ST-Standby Line of Credit	ST	2.00	CARE A2	-	1)CARE A2 (25-Sep-18)	1)CARE A2 (05-Oct-17)	1)CARE A2 (06-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.

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