

Kriti Industries (India) Limited

October 05, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	64.62	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.00	CARE A2 (A Two)	Reaffirmed
Long/Short-term Bank Facilities	110.88	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Facilities	178.50 (Rupees One Hundred Seventy Eight crore and Fifty lakh only)		

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 with continued efforts by the government through various schemes and above average monsoon in current season in most part of India. The ratings further derive strength from KIL's financial risk profile marked by stable profitability, moderate leverage and debt coverage indicators albeit impacted in FY17 (refers to period April 1 to March 31) owing to demonetization.

The ratings, however, continue to remain constrained on account of susceptibility of profitability to volatile raw material prices with linkages to crude oil prices and forex fluctuation, seasonality associated with demand of KIL's products, oligopolistic supply market of its raw material and intense competition in plastic pipes industry which limits the profitability margins.

The ability of KIL to improve its profitability amidst the volatile raw material prices and forex rates, improvement in capital structure and effective management of working capital management shall be the key rating sensitivities. Further, any future large size project and its funding profile shall also remain key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths

Experienced and competent management: Mr Shiv Singh Mehta, aged 58 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 a decade experience in the plastic industry with state of the art-manufacturing unit, infrastructure, equipment and other facilities with a total installed capacity of 82,752 Metric Tonne Per Annum (MTPA) as on March 31, 2017. 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.

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 only 15% of the net sales for FY17.

Moderate capital structure and debt coverage indicators: Despite working capital intensive operations, the capital structure of the company remained moderate marked by an overall gearing ratio of 1.52 times as on March 31, 2017.

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

Lower demand in H2FY17 led to increase in the inventory holding period along with increased debtor collection days due to extended credit offered to its customer to push the demand during the demonetization.

Growing demand for PVC pipes supported by government schemes albeit competitive industry: Domestic piping industry size is Rs.27,500 crore out of which plastic piping segment constitutes Rs.22,000 crore. Market size of organized segment in domestic plastic pipes industry is around 60%. Further, the demand outlook for the Indian plastic pipes is expected to be stable with increased government spending in 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 JNNURM, SWACHH Bharat Mission, Smart Cities Mission, etc.

Key Rating Weakness

Decline in the total operating income and profitability during FY17 owing to demonetization: The total operating income of KIL reported a y-o-y decline of 21% during FY17 backed by lower demand in H2FY17 post demonetization. Moreover, during H1FY17, the company completed modernization and expansion capex at its existing location which has also impacted the operation in Q2FY17. The capex was commissioned from October 2016. The company was envisaging maximizing the benefits of capex during the peak season of Q3FY17. However, during Q3FY17, KIL's witnessed a substantial decline of 36% in its revenue over Q3FY16, mainly demand disruption owing to demonetization. The profitability too have witnessed fall in FY17 over FY16 with PBILDT declined by 21% and PAT declined by 33% with decline in scale of operation. However, KIL was able to maintain its PBILDT and PAT margins backed by its high operating efficiencies.

Further, KIL reported total operating income of Rs.146.32 crore during Q1FY18 with PBILDT and PAT margins of 6.16% and 2.13% respectively. The PBILDT margins were lower in Q1FY18 compared to Q1FY17 mainly on account of change in product mix with higher proportion of low margin institutional sales and decline of high margin retail sales due to de-stocking of products in anticipation of Goods and Service Tax (GST).

Volatile raw material prices and oligopolistic supply market: The major raw materials required are plastic polymers contributing to almost 88% 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 64% of its total raw material supply for FY17, with Reliance Industries Limited (RIL) holding the majority 39% share.

Presence in competitive plastic pipe sector: 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.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for 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; Stable/ CARE A3+) and of its auto component manufacturing division into a 100% subsidiary named Kriti Auto and Engineering Plastic Pvt. Ltd. in January 2010. KIL's facilities are located at Pithampur, Madhya Pradesh with a total installed capacity of 80,676 metric tonne per annum (MTPA) for pipe manufacturing and 2,076 MTPA for pipe fittings/mouldings as on March 31, 2017.

(Rs. Crore)

Brief Financials of KIL	FY16 (A)	FY17 (A)
Total operating income	463.98	364.91
PBILDT	39.10	30.52
PAT	11.69	8.87
Overall gearing (times)	1.62	1.52
PBILDT Interest coverage (times)	2.47	2.53

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	NA	NA	NA	40.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	110.88	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	NA	NA	March, 2022	24.62	CARE BBB+; Stable
Fund-based - ST-Standby Line of Credit	NA	NA	NA	3.00	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 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-Cash Credit	LT	40.00	CARE BBB+; Stable	-	1)CARE BBB+ (06-Oct-16)	1)CARE BBB (29-Sep-15)	1)CARE BBB (04-Aug-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	110.88	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (06-Oct-16)	1)CARE BBB / CARE A3+ (29-Sep-15)	1)CARE BBB / CARE A3+ (04-Aug-14)
3.	Term Loan-Long Term	LT	24.62	CARE BBB+; Stable	-	1)CARE BBB+ (06-Oct-16)	1)CARE BBB (29-Sep-15)	1)CARE BBB (04-Aug-14)
4.	Fund-based - ST-Standby Line of Credit	ST	3.00	CARE A2	-	1)CARE A2 (06-Oct-16)	1)CARE A3+ (29-Sep-15)	1)CARE A3+ (04-Aug-14)

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