Kriti Industries (India) Limited

October 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	70.99 (Reduced from 77.83)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	130.00 (Enhanced from 127.02)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Short Term Bank Facilities	2.50	CARE A2 (A Two)	Assigned
Short Term Bank Facilities	7.00 (Enhanced from 2.00)	CARE A2 (A Two)	Reaffirmed
Total Facilities	210.49 (Rupees Two Hundred Ten Crore and Forty-Nine Lakh Only)		

[1]*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 its promoters, established operations in plastic pipes and fittings industry, its widespread distribution network with diversified clientele; and moderate scale of operations. The ratings also factor KIL's adequate liquidity and stable demand outlook for plastic pipes industry.

The ratings, however, continue to remain constrained due to its high leverage and moderate debt coverage indicators, its moderate profitability which is susceptible to volatile raw material prices, volatility in foreign exchange rates and oligopolistic supply market of its key raw materials. The ratings are further constrained due to seasonality associated with demand for KIL's products, its large working capital requirements and presence in a highly competitive plastic pipes manufacturing industry.

Rating Sensitivities

Positive Factors

- Significant increase in its scale of operations through greater geographical diversification along with improvement in its PBILDT margin to over 10% on a sustained basis
- Improvement in its overall gearing to below 0.70 times and TOL/TNW to below unity on sustained basis
- Curtailment of its gross operating days (Inventory + Receivables days) to below 90 days on sustained basis

Negative Factors

- Decline in PBILDT margin to below 5% on sustained basis along with adverse impact on its debt coverage indicators
- Any debt funded capex or stretch in working capital requirements leading to deterioration in its overall gearing beyond 2.00 times or TOL/TNW beyond 2.50 times on sustained basis
- Elongation in its gross operating days beyond 180 days on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters

Mr Shiv Singh Mehta, Chairman and Managing Director, has total work experience of more than 30 years and looks after the overall operations of the company. He 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. This apart, the board of directors of KIL also includes experienced independent director viz. Mr. Rakesh Kalra [Ex. MD of Eicher Motors Limited], Mr. Manoj Fadnis [Ex-President of Institute of Chartered Accountants of India (ICAI), New Delhi for the year of 2015-16 and Vice President of ICAI for the year of 2014-15] and Mr. Chandrasekharan Bhaskar [MD of Xpro India Limited].

KIL has a wholly owned subsidiary, Kriti Auto and Engineering Plastics Limited (KAEPPL), which is engaged in the manufacturing of auto components for the automobile industry. Its group company Kriti Nutrients Limited (KNL; rated CARE

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

A-; Stable/CARE A2+) is engaged in the business of edible oil refining, solvent extraction and manufacturing of soya value added products at its manufacturing facility located in Madhya Pradesh.

Established operations in plastic pipes and fittings business with wide-spread distribution network and diversified clientele
KIL has over three decades of experience in the plastic pipe industry with good presence in Madhya Pradesh and Rajasthan catering to the demand from agriculture and industrial segments. During FY19, KIL forayed into the markets of Maharashtra and Telangana with an aim of greater geographical diversification of its sales which has resulted in fall in share of its sales to its two largest markets (M.P. and Rajasthan) from 88% in FY18 to 78% in FY20. In its overall product mix, agriculture segment formed 72% of net sales (drip irrigation proportion is low at 1% of net sales) in FY20 while the industrial segment which constituted 23% of net sales includes sales to various industries like city gas distribution (CGD) and telecommunication; whereas infrastructure and building products formed 5% of its net sales. KIL is largely a retail centric company with around 70-75% of sales through trade partners who retail to the consumers. It has a wide distribution network of approximately 700 dealers across 15 states.

KIL sells PVC pipes under the regional brand “Kasta” and sub-brands like “Krystal” and Khushali”. KIL can manufacture polymer extruded pipes from 20 mm to 710 mm diameter with application ranging from Water, Drip Irrigation, CGD and Telecommunication segments. KIL enjoys long standing relationship with some of the reputed customers in its industrial segment across CGD, Telecom and Infrastructure sectors. Further, KIL’s customer base continues to be fairly diversified with the top 5 customers forming 17% of its net sales for FY20 (FY19: 27%).

Moderate scale of operations during FY20; albeit muted performance in Q1FY21 due to Covid-19 disruption
TOI of KIL declined by 6% on y-o-y basis to Rs.536.03 crore during FY20 mainly on account of moderation in the average sales realization on the back of decline in its raw material price along with disruption in its operation during last week of March 2020 due to nationwide lockdown amidst Covid-19 pandemic. Total sales volume, too, declined marginally by 2% during FY20 mainly on account of muted demand from industrial and infrastructure segments whereas demand from Agriculture segment witnessed growth on y-o-y basis. Its capacity utilization remained moderate at around 50%.

Impact of Covid-19 on KIL’s operations:
Manufacturing plant of KIL was shut down from March 25, 2020 to April 26, 2020. The plant had started operations in a staggered manner from April 27, 2020.
Its TOI declined by 30% on y-o-y basis from Rs.221.41 crore during Q1FY20 to Rs.155.47 crore during Q1FY21 on the back of moderation in demand from industrial as well as agriculture sectors. However, KIL did not avail any moratorium for the repayment of its debt obligations as a Covid-relief measure, in line with Reserve Bank of India (RBI) guidelines.

Stable demand outlook for the plastic pipes industry
The demand for plastic pipes is catalyzed by the growth of agricultural, real estate, city gas distribution and telecom industries. Demand outlook for the Indian plastic pipes industry is expected to be stable with increase in government spending on construction & infrastructure along with thrust on the agriculture sector by way of higher targeted production 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. The irrigation sector is the key end-user segment for plastic pipes, accounting for a major share (~45-50%) share of the industry. A rise in population and incomes is projected to drive the long-term demand for the housing sector, which, in turn, could drive the demand for PVC pipes and fittings. Moreover, demand from telecom sector as well as CGD segment is also expected to drive future growth in industrial segment.

Liquidity: Adequate
KIL has adequate liquidity with moderate cash accruals against its moderate debt repayment obligations and unutilized fund based working capital limits. Average fund based working capital utilization remained at 50% whereas average non-fund working capital utilization remained at 51% during the trailing twelve months ended June 2020. Operating cycle elongated to 39 days in FY20 as compared to 32 days in FY19 due to increase in the average inventory as well as average collection period as on March 31, 2020. Cash flow from operation increased from Rs.15.38 crore during FY19 to Rs.32.98 crore during FY20. Current ratio and quick ratio remained low but stable at 1.06x and 0.42x respectively as on March 31, 2020.

Key Rating Weaknesses
Moderate operating profitability
KIL has moderate operating profitability marked by profit before interest, lease, depreciation and tax (PBILDT) margin of 8.86% during FY20 which improved from 5.43% during FY19, mainly on account of benefit of lower raw material cost along with benefit of expansion in to newer geographies with strong demand from agriculture segment and rationalization of its

overall cost structure. PBILDT margin of KIL was also lower in FY19 as it had incurred significant business development expense for expansion in the newer geographies like Maharashtra and Telangana.
With increase at PBILDT level, PAT margin also improved by 243 bps from 1.16% during FY19 to 3.59% during FY20 despite increase in depreciation as well as interest cost.
PBILDT margin further improved by 230 bps to 9.33% on y-o-y basis due to control over overhead expenses and benefit of lower raw material cost (being derivative of crude oil whose prices had fallen due to the pandemic). PAT margin too, improved by 158 bps from 3.07% during Q1FY20 to 4.76% during Q1FY21 with increase at PBILDT level and moderation in the interest cost.

High leverage and moderate debt coverage indicators
KIL's leverage continued to remain high despite improvement in its overall gearing from 1.85x as on March 31, 2019 to 1.59x as on March 31, 2020. Its TOL/TNW, too, remained high at 2.30x as on March 31, 2020. Total debt (including LC acceptances) of the company increased from Rs.156.97 crore as on March 31, 2019 to Rs.164.97 crore as on March 31, 2020 due to increase in unsecured loan from promoter group company. Further, its debt coverage indicators although improved during FY20, remained moderate with TD/GCA and PBILDT interest coverage ratio of 7.05x and 2.75x respectively during FY20 as compared with 10.78x and 2.10x during FY19.

Large working capital requirements
KIL's working capital requirements are large marked by gross operating days of around 137 days in FY20 which had increased from 103 days during FY19. It has large working capital requirement mainly on account of its diverse product offerings wherein it needs to keep the minimum inventory level and seasonality associated with its agriculture segment of business which results in higher inventory holding prior to the commencement of season which is Q1 (Pre-monsoon) and Q3 (Post-monsoon).
Average inventory days increased from 70 days during FY19 to 93 days during FY20 mainly due to increase in raw material inventory in March 2020 to take benefit lower prices and in anticipation of higher demand in season in Q1FY21. Average receivables days elongated from 33 days in FY19 to 44 days in FY20. Both were also impacted by closure of operations in last week of March 2020 due to Covid 19. Increasing working capital requirement was funded by availing higher credit period from its suppliers. KIL uses letter of credit (LC) for its raw material procurement having usance period of 90 days for domestic LC and 120 days for import LC. Average creditor's days also increase from 72 days in FY19 to 97 days in FY20.

Susceptibility of its profitability to volatile raw material prices and forex rates
Plastic polymers is the major raw material for KIL which accounted for 84% of its total cost of sales during FY20 (90% during FY19) and its price is directly linked to the movement in crude oil prices which is volatile in nature, thus affecting the profit margins. Furthermore, a significant portion of the total polymer requirement in India is met through imports. 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 for key raw material along with presence in competitive plastic pipes and fittings industry; and seasonality associated with its business
The domestic polymer supply industry is oligopolistic in nature with presence of a few large players who have significantly higher bargaining power vis-à-vis the plastic pipe manufacturers. KIL's supplier base is also concentrated with majority of its raw material requirement (70-80%) being met by domestic players and rest from the 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 also faces stiff competition from much larger organized sector players with nationwide brands like 'Astral', 'Prince', 'Finolex', 'Supreme', 'Ashirwad', etc. High competitive intensity restricts the profitability margins of the smaller plastic pipe manufacturers with regional presence. However, KIL has strong presence in Madhya Pradesh and Rajasthan where its brand 'Kasta' enjoys good market share especially in the agriculture segment. Furthermore, sales of KIL are seasonal in nature with Q1 (Pre-monsoon) and Q3 (Post-monsoon) of the financial year together contributing nearly 60-65% of its annual sales wherein there is a high demand particularly from the agriculture segment.

Analytical approach: Standalone
Applicable Criteria:
Criteria on assigning 'Outlook' and 'credit watch' 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
Liquidity Analysis of Non-Financial Sector Entities

About the company

Promoted by Mr Shiv Singh Mehta, KIL (CIN: L25206MP1990PLC005732), 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 Limited (KNL; rated CARE A-; Stable/ 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.

It manufactures plastic pipes, ducts and fittings made of PVC/LDPE/MDPE and HDPE which caters to the demand of Agriculture, City Gas Distribution, Telecom and Infrastructure sectors. Major focus of the company is on PVC pipes used in Agriculture sector for irrigation which are sold under brand Name of “Kasta”.

KIL’s manufacturing 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, 2020.

(Rs. crore)

Brief Financials	FY19 (A)	FY20 (A)
Total operating income	570.94	536.03
PBILDT	31.01	47.48
PAT	6.61	19.24
Overall gearing (times)	1.85	1.59
Interest coverage (times)	2.10	2.75

A: Audited

As per its published results, KIL earned a PAT of Rs.7.23 crore on a TOI of Rs.155.47 crore in Q1FY21 as against a PAT of Rs.6.80 crore on a TOI of Rs.221.41 crore in Q1FY20.

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	-	-	-	130.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	March 2024	20.99	CARE BBB+; Stable
Fund-based - ST-Standby Line of Credit	-	-	-	7.00	CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	2.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (01-Oct-19)	1)CARE BBB+; Stable (25-Sep-18)	1)CARE BBB+; Stable (05-Oct-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	130.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (01-Oct-19)	1)CARE BBB+; Stable / CARE A2 (25-Sep-18)	1)CARE BBB+; Stable / CARE A2 (05-Oct-17)
3.	Term Loan-Long Term	LT	20.99	CARE BBB+; Stable	-	1)CARE BBB+; Stable (01-Oct-19)	1)CARE BBB+; Stable (25-Sep-18)	1)CARE BBB+; Stable (05-Oct-17)
4.	Fund-based - ST-Standby Line of Credit	ST	7.00	CARE A2	-	1)CARE A2 (01-Oct-19)	1)CARE A2 (25-Sep-18)	1)CARE A2 (05-Oct-17)
5.	Non-fund-based - ST-Credit Exposure Limit	ST	2.50	CARE A2	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: List of subsidiaries getting consolidated: Not Applicable

Annexure 5: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Standby Line of Credit	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple
4.	Term Loan-Long Term	Simple

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

Analyst Contact
Akhil Goyal
Contact no. - +91-79-40265621
Email: akhil.goyal@careratings.com

Business Development Contact
Deepak Prajapati
Contact no. - +91-79-40265602
Email: deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over 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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**