Kriti Nutrients Limited

March 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/ Short term Bank Facilities (Fund based)	52.00	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**
Long-term/ Short term Bank Facilities (Non Fund based)	-	-	**Withdrawn #**
Total	**52.00 (Rupees Fifty Two Crore Only)**		

 # Due to re-classification of non-fund based limits to fund based limits, long-term/short-term rating assigned to non-fund based facilities has been withdrawn.
Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kriti Nutrients Limited (KNL) takes into account healthy growth in total operating income with significant improvement in its profitability margins leading to strong growth in gross cash accruals during 9MFY18 (refers to the period April 01 to December 31) over 9MFY17.

The ratings continue to derive strength from its established operations in solvent extraction and edible oil industry having wide product portfolio, strong brand image and marketing network in Central India, and KNL's financial risk profile marked by comfortable overall gearing ratio and debt coverage indicators with healthy return ratios.

The ratings, however, continue to remain constrained on account of KNL's presence in highly competitive edible oil industry, seasonality associated with availability of soya seeds and volatile agro-commodity prices with linkages to international markets and forex fluctuations, and KNL's working capital intensive nature of operations.

Ability of KNL to further grow its total operating income while maintaining its profitability margins amidst the competitive edible oil industry and efficient working capital management shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income coupled with significant improvement in profitability: KNL reported healthy Y-o-Y growth of 20% during 9MFY18 over 9MFY17 backed by higher production and sales volume of its products. The PBILDT margin significantly improved to 7.82% during the period due to favourable pricing parity between raw material prices (i.e. cost of soya seeds) and finished product prices [mainly soya De-Oiled Cake (DOC)]. Due to improvement in PBILDT margin along with relatively stable interest and depreciation charge, the PAT margin also improves by over 200 bps and stood healthy at 3.87% for the period. Further, with improvement in profitability, the gross cash accruals also witnessed a strong growth of 128% during 9MFY18 over 9MFY17 leading to very strong debt coverage indicators.

Established operations in solvent extractions and refining: KNL has an established track record of over a decade in the solvent extraction and refining business. It crushes soya bean seeds to extract crude soya oil and soya DOC apart from other value added products such as soya grits, flour, flakes, and lecithin. KNL further refines the crude soya oil and sells refined soya oil. KNL's brand 'Kriti' is well-known in central India's retail market, due to which its refined oil is entirely sold in a retail premium segment with no bulk sales. KNL largely exports its soya value added products. Moreover, with presence in retail segment, KNL is less susceptible to volatility in commodity prices.

Wide marketing and distribution network along with expanding portfolio of value added products: It has a network of more than 500 dealers spread across India. Apart from the soya edible oil, KNL is also expanding its product base to manufacture high margin soya value added products for food, pharmaceutical and nutrition industry for which it has set-up R&D facility at its manufacturing plant in Dewas, Indore. Also, KNL had set up facilities to manufacture high-grade lecithin and it supplies the same to leading FMCG Company worldwide. During FY17, the company derived nearly 62% of its net sales from sale of refined oil, 14% from soya DOC, and 3% from sale of lecithin and balance from other products.

Comfortable capital structure and debt coverage indicators coupled with healthy return indicators: The capital structure marked by an overall gearing ratio remained comfortable at 1.22 times as on December 31, 2017. The company

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

largely avails the working capital borrowings. As on December 31, 2017, the company has no term debt and there is no scheduled term debt repayment obligation leading to comfortable debt service coverage indicators. Further, total debt to GCA and interest coverage too remained comfortable and improved further during 9MFY18 backed by improved profitability and cash accruals. Moreover, the company has high capital efficiency marked by healthy ROCE and RONW indicators which have remained at more than 20% over past 3 years ended FY17 and improved significantly during 9MFY18.

Key Rating Weakness

Working capital intensive nature of operations: KNL purchases soya seed for solvent extraction or crude soya oil for refining, depending on the availability of seed, its quality and parity with international DOC prices. Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from mandis. KNL's requirement of working capital is influenced by the seasonal availability and quality of soya bean seeds, which is generally high during the peak season. KNL funds the large part of its working capital requirement through bank borrowings. The average fund based working capital utilizations level remained high for past 12 months ended December 31 2017.

Exposure to volatility in raw material and forex rates: KNL uses soya seeds or soya crude oil as its major raw material whose prices are globally determined on the basis of demand and supply of soya seeds, which in turn depends upon rainfall and area under cultivation. Moreover, KNL also derives nearly 20-25% of its revenue from exports whereas the import on the other side is negligible. Hence, KNL is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates. However, KNL generally enters into derivative contracts depending on the company's hedging policy apart from availment of foreign currency denominated working capital borrowings which partially mitigates the forex risk.

Presence in competitive domestic edible oil industry: The Indian edible oil industry is highly competitive due to low entry barriers and low capital intensity. Thus, profitability is inherently thin and is further exposed to movement in prices of soya bean seed, finished goods (mainly DOC and soya refined oil) and other substitute oils. India is one of the major soya seed producing countries with fair share in exports of soya meal. However, since last 2-3 years, the industry is facing problem due to disparity of prices of domestic soya seed and international soy meal. USA, Brazil and Argentina witnessed good crop production which led to decline in soya meal prices in the international market.

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

KNL is engaged in the extraction of soya oil from soya seeds and refining of crude soya oil and manufacturing of other value added soya based products. The main products of KNL include refined soya oil, soya DOC, soya flakes, soya grits, and soya floor and soya lecithin. KNL's manufacturing facilities are located at Dewas, Madhya Pradesh (MP) with a solvent extraction capacity of 360,000 metric tonne per annum (MTPA) and oil refining capacity of 60,000 MTPA as on December 31, 2017. KNL sells its refined oil under the brand 'Kriti'.

(Rs. Crore)

Brief Financials	FY16 (Aud.)	FY17 (Aud.)	9MFY18 (Un-Aud.)
Total operating income	359.01	459.17	331.89
PBILDT	15.93	16.77	25.31
PAT	6.29	6.30	12.83
Overall gearing (times)	0.71	1.20	1.22
PBILDT Interest coverage (times)	3.49	3.55	7.03

Status of non-cooperation with previous CRA: None

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/ ST-Working Capital Limits	-	-	-	52.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC	-	-	-	20.00	Withdrawn

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/ ST-Working Capital Limits	LT/ST	52.00	CARE BBB+; Stable / CARE A2	1)CARE BBB; Stable (05-Oct-17)	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)	1)CARE BBB- (26-Nov-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	Withdrawn	1)CARE BBB; Stable / CARE A3+ (05-Oct-17)	1)CARE BBB / CARE A3+ (06-Oct-16)	1)CARE BBB / CARE A3+ (25-Nov-15)	1)CARE BBB- / CARE A3 (26-Nov-14)
3.	Term Loan-Long Term	LT	-	-	1)Withdrawn (05-Oct-17)	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)	1)CARE BBB- (26-Nov-14)

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