Kriti Nutrients Limited (Revised)

October 01, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	22.00 (reduced from Rs.52 crore)	**CARE BBB+; Positive/ CARE A2 (Triple B Plus; Outlook: Positive/A Two)**	**Reaffirmed**
Short-term Bank Facilities	4.00	**CARE A2 (A Two)**	**Reaffirmed**
Total	**26.00 (Rupees Twenty Six Crore only)**		

[1]Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kriti Nutrients Limited (KNL) continue to derive strength from its experienced promoters and established track record in solvent extraction and edible oil industry having wide product portfolio along with its strong brand image and established marketing network in central India. The ratings also continue to factor its stable operations with comfortable solvency position marked by low leverage and comfortable debt coverage indicators which improved further in FY19 (FY refers to the period from April 1 to March 31) on the back of healthy cash accruals and no major capex plans.

The ratings, however, continue to remain constrained on account of KNL's presence in the competitive soya seed processing and edible oil industry, seasonality associated with availability of soya seeds and susceptibility of profitability to volatile raw material prices and foreign exchange fluctuations. The ratings are also tempered by moderation in its profitability during FY19 and Q1FY20; albeit it remained at moderate level.

Ability of KNL to significantly increase its scale of operations while improving its profitability margins amidst volatile agro-based raw material prices and competitive industry landscape while efficiently managing its working capital requirements shall be the key rating sensitivity.

Outlook: Positive

The 'Positive' outlook on KNL's rating reflects the expected growth in its scale of operation along with improvement in profitability and debt coverage indicators with increasing focus of the company on value added soya products. The outlook may be revised to 'Stable' if the company is unable to realise the envisaged benefits or any unfavourable change in Industry dynamics.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established operations in solvent extraction and edible oil industry: Promoted by Mr. Shiv Singh Mehta, KNL has an established track record of over two decades in the solvent extraction and edible oil refining business. It crushes soya bean seeds to extract crude soya oil and manufactures soya de-oiled cake (DOC) as well as value added soya products such as soya hi-pro (high protein), soya grits, soya flour and soya flakes. KNL largely exports its soya value added products. 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 (mainly Madhya Pradesh), due to which its refined oil is entirely sold in a retail premium segment with no bulk sales. Moreover, with presence in retail segment, KNL is less susceptible to volatility in commodity prices.

Mr. Shiv Singh Mehta (CMD), looks after overall operations of KNL, is a qualified engineer and holds master degree in business administration with an experience of more than two decades in the oil seed extraction and oil refining business. Mr. Mehta is assisted by his son Mr. Saurabh Singh Mehta in the capacity of Whole-time Director and his wife Mrs. Purnima Mehta (Non-Executive) in the overall functioning of the company. Promoters have promoted Kriti Industries (India) Limited (KIL; rated CARE BBB+; Stable/CARE A2) which is engaged in manufacturing of plastic pipes, (PVC, HDPE, LDPE), ducts, fittings and moludings at its manufacturing facility located at Madhya Pradesh.

Wide marketing and distribution network along with wide portfolio of value added products: KNL has a network of around 200 dealers spread across India with major focus on Central India. KNL's product portfolio includes soya value added products such as soya de-oiled cake (DOC), soya flakes, soya grits and soya flour which find application in food, pharmaceutical and nutrition industry. Also, KNL had set up facilities to manufacture high-grade lecithin and it supplies the

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

same to leading FMCG companies worldwide. During FY19, the company derived nearly 69% of its net sales from sale of refined oil, 23% from soya meal (soya DOC, flakes, grits, flour etc.), 7% from sale of lecithin and balance 1% from other products. KNL is also expanding the portfolio of its value added products for which it has R&D facility at its manufacturing plant in Dewas, Indore. It has a dedicated team of professionals who are continuously engaged in developing diversified products.

Stable total operating income along with comfortable capital structure and strong debt coverage indicators: Total operating income (TOI) of KNL grew by 5% from Rs.462.60 crore in FY18 to Rs.486.23 crore in FY19 owing to increase in sales realization (as compared to FY18) from refined oil and soya meal with increase in soybean prices in domestic market. Capacity utilisation of oil refining declined marginally during FY19 whereas capacity utilization of crushing operation (solvent extraction) remains low and varies with pricing parity between soya seeds prices and prices of refined oil and DOC. As per provisional results for Q1FY20, KNL has reported TOI of Rs.142.29 crore (Q1FY19: Rs.138.14 crore).

The capital structure marked by overall gearing remained comfortable and further improved from 0.56x as on March 31, 2018 to 0.18x as on March 31, 2019 owing to reduction in debt levels with lower working capital limit utilization and accretion of profit to net-worth. Total debt had reduced from Rs.29.59 crore as on March 31, 2018 to Rs.12.36 crore as on March 31, 2019 and to Rs.2.45 crore as on June 30, 2019. Due to strong cash flow from operations during FY19, KNL's reliance on working capital borrowings remains low which together with absence of any term loans have resulted in its strong debt coverage indicators. Interest coverage continues to remain comfortable at 13.20 times in FY19 (FY18: 6.36 times) whereas the total debt to gross cash accruals (GCA) too improved from 1.54 times FY18 to 0.60 times in FY19. Moreover, KNL has higher capital efficiency marked by healthy return on capital employed (ROCE) of 32.73% and return on net-worth (RONW) of 35.35% in FY19.

Liquidity: Adequate

KNL has adequate liquidity position marked by healthy cash accruals with no long term debt repayments, lean operating cycle, comfortable liquidity ratios and low working capital limit utilization. The operating cycle shortened and remained lean at 27 days in FY19 as compared to 32 days during FY18. Cash flow from operation had also increased from Rs.17.40 crore during FY18 to Rs.22.85 crore during FY19. Moreover, current ratio and quick ratio improved from 1.19 times and 0.50 times respectively as on March 31, 2018 to 1.83 times and 0.81 times respectively as on March 31, 2019. KNL had cash and bank balance of Rs.0.02 crore as on March 31, 2019 apart from lien marked FD of Rs.1.75 crore. The average fund based working capital utilizations level remained at 40.52% for past 12 months ended August 2019.

Key Rating Weaknesses

Moderation in the profitability which remained at moderate level: Profit before interest, lease, depreciation and tax (PBILDT) margin moderated from 7.11% in FY18 to 6.55% during FY19. It was mainly on account of business development expense incurred by the company along with increase in the raw material (soyabean seed) prices in the domestic market which company was able to partially pass-on to its customers. Profit after tax (PAT) margin however; marginally improved from 3.41% in FY18 to 3.49% in FY19 on the back of moderation in the interest cost with reduction in debt level of the company. PBILDT margin further declined to 4.91% during Q1FY20 whereas PAT margin remained at 2.65%.

Seasonality associated with availability of soya seeds: 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 also influenced by the seasonal availability and quality of soya bean seeds, which is generally high during the peak season.

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. KNL derives 21% of its revenue from exports in FY19 (31% in FY18) 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 which partially mitigates the forex risk.

Presence of the company in competitive soyabean industry: The Indian edible oil industry is highly competitive due to low entry barriers and low capital intensity. Thus, profitability is inherently low and is further exposed to movement in prices of soya bean seed, finished goods (mainly DOC and soya refined oil) and other substitute oils. However, government increases import duty from time to time on the edible oils to protect domestic players thereby leading to improvement in the capacity utilization of domestic soya bean crushing operations. Further, since last 2-3 years, the industry is facing problem due to disparity in prices of domestic soya seed and international soya 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' 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
KNL (CIN: L24132MP1996PLC011245), de-merged in January 2010 from Kriti Industries (India) Limited *(KIL; rated CARE BBB+; Stable/ CARE A2)*, 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. 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 March 31, 2019.

KIL, promoted in 1990 by Mr Shiv Singh Mehta, had two divisions before the demerger, viz, solvent extraction and plastic fittings & engineered auto components. The plastic fittings & engineered auto components division continues to remain with KIL.

(Rs. crore)

Brief Financials	FY18 (A)	FY19 (A)
Total operating income	462.60	486.23
PBILDT	32.88	31.87
PAT	15.79	16.95
Overall gearing (times)	0.56	0.18
Interest coverage (times)	6.36	13.20

A: Audited
As per the provisional results, KNL earned a PAT of Rs.3.77 crore on a TOI of Rs.142.29 crore in Q1FY20 as against PAT of Rs.6.04 crore on a TOI of Rs.138.14 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/ ST-Working Capital Limits	-	-	-	22.00	CARE BBB+; Positive / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	4.00	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/ ST-Working Capital Limits	LT/ST	22.00	CARE BBB+; Positive / CARE A2	-	1)CARE BBB+; Positive / CARE A2 (03-Oct-18) 2)CARE BBB+; Positive / CARE A2 (25-Sep-18)	1)CARE BBB+; Stable / CARE A2 (06-Mar-18) 2)CARE BBB; Stable (05-Oct-17)	1)CARE BBB (06-Oct-16)
2.	Non-fund-based - ST-Credit Exposure Limit	ST	4.00	CARE A2	-	1)CARE A2 (03-Oct-18)	-	-

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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