Kriti Nutrients Limited

October 05, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	32.00 (reduced from Rs.44.02 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	20.00	**CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**	**Reaffirmed**
Total Facilities	**52.00 (Rupees Fifty Two Crore Only)**		

Note: CARE has withdrawn the rating assigned to the term loan facilities since the same are completely repaid and there are no amount outstanding against the same

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 established operations with strong brand and marketing network in Central India, growing scale of operations backed by growing edible oil demand in domestic market and export of high protein soya De-Oiled Cake (DOC) and KNL's financial risk profile marked by comfortable overall gearing ratio and debt coverage indicators.

The ratings, however, continue to remain constrained on account of KNL's presence in the 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. The ratings also take into account modest profitability margins due to low value addition and working capital intensive nature of operations.

Increase in KNL's scale of operations along with improvement in its profitability 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

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 value added products such as soya DOC, grits, flour and flakes. 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.

Wide marketing and distribution network along with expanding portfolio of value added products: KNL has a network of more than 500 dealers spread across India. Apart from the soya edible oil, it 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 companies 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.

Growth in the scale of operations: The total operating income of KNL reported a healthy growth of 28% during FY17. The growth in the total operating income was driven by sales of high protein DOC mainly to European country, thus leading to improved capacity utilization of solvent extraction unit during FY17. Apart from this, KNL also benefits from recovery of soya gum oil during crushing which it convert to lecithin.

Comfortable capital structure and moderate debt coverage indicators: The capital structure, although deteriorated marginally due to higher working capital borrowings for the year, has remained comfortable marked by overall gearing ratio at 1.20 times on March 31, 2017. Further, the debt coverage indicators i.e. total debt to GCA remained moderate at 5.01 years as on March 31, 2017 and Interest coverage at 3.55 times during FY17.

Key Rating Weakness

Moderate profitability margins: Despite improvement in the scale of operations, the PBILDT margins declined during FY17 over FY16 mainly on account of increased share of low margin DOC sales. PAT margin further declined in line with PBILDT margins during FY17. However, profitability margins improved during Q1FY18 compared to FY17 on account of

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

efficient buying strategy which resulted in lower raw material costs along with increased share of value added products in total operating income.

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 apart from use of letter of credit facility for import of crude soya oil. The average fund based working capital utilizations level remained high at 85% for past 12 months ended July 2017. The average utilizations for the non-fund based working capital limits remained at 33% for the same period.

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 limits profitability margins: 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. Moreover, 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.

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 de-merged in January 2010 from Kriti Industries (India) Ltd *(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. 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.
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, 2017.

(Rs. Crore)

Brief Financials	FY16 (A)	FY17 (A)
Total operating income	359.01	459.17
PBILDT	15.93	16.77
PAT	6.29	6.30
Overall gearing (times)	0.71	1.20
PBILDT Interest coverage (times)	3.49	3.55

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Working Capital Limits	NA	NA	NA	32.00	CARE BBB; Stable
Term Loan-Long Term	NA	NA	NA	0.57	Withdrawn
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	20.00	CARE BBB; Stable / CARE A3+
Term Loan-Long Term	NA	NA	NA	1.45	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-Working Capital Limits	LT	32.00	CARE BBB; Stable	-	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)	1)CARE BBB- (26-Nov-14)
2.	Term Loan-Long Term	LT	-	-	Withdrawn	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)	1)CARE BBB- (26-Nov-14)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB / CARE A3+ (06-Oct-16)	1)CARE BBB / CARE A3+ (25-Nov-15)	1)CARE BBB- / CARE A3 (26-Nov-14)
4.	Term Loan-Long Term	LT	-	-	Withdrawn	1)CARE BBB (06-Oct-16)	1)CARE BBB (25-Nov-15)	1)CARE BBB- (26-Nov-14)

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