# Kriti Nutrients Limited

October 06, 2020

**Ratings**

| Facilities | Amount (Rs. Crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long Term/Short Term Bank Facilities | 22.00 | **CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)** | **Revised from CARE BBB+; Positive / CARE A2 (Triple B Plus ; Outlook: Positive / A Two)** |
| Short Term Bank Facilities | 4.00 | **CARE A2+ (A Two Plus)** | **Revised from CARE A2 (A Two)** |
| **Total Facilities** | **26.00 (Rupees Twenty-Six Crore only)** | | |

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

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Kriti Nutrients Limited (KNL) factor growth in its scale of operations in FY20 (FY refers to the period from April 1 to March 31) along with consistent reduction in its debt levels over the last two years resulting in significant improvement in its debt coverage and leverage indicators. The revision in ratings also factor y-o-y improvement in its scale of operations and profitability in Q1FY21.

The ratings further continue to derive strength from its experienced promoters and established track record of KNL in solvent extraction and edible oil industry having diversified product portfolio with strong presence in the branded refined oil segment and established marketing network in central India. The ratings also factor its adequate liquidity.

The ratings, however, continue to remain constrained on account of KNL's presence in the competitive refined oil and solvent extraction industry, seasonality associated with availability of soya seeds and susceptibility of its moderate profitability to volatile raw material prices and foreign exchange fluctuations.

**Rating Sensitivities**

**Positive Factors**

- Increase in scale of operation with TOI of over Rs.1000 crore though greater geographical and product diversification on sustained basis.
- Improvement in profitability with PBILDT margin of over 8% on a sustained basis through greater share of value-added products or deeper brand penetration.

**Negative Factors**

- Decline in scale of operations with TOI falling below Rs.400 crore and PBILDT margin below 4% on sustained basis.
- Any major debt funded capex and/or increase in working capital intensity of its operations resulting in overall gearing over 1 time on sustained basis.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Growth in scale of operations in FY20 and Q1FY21 along with reduction in its debt levels over the last two years resulting in significant improvement in its debt coverage and leverage indicators***

Total operating income (TOI) of KNL grew by 8% from Rs.486.23 crore in FY19 to Rs.523.65 crore in FY20 on the back of increase in sales volume as well as price of its branded refined soya oil; which was achieved despite lower sales volume of soya meal (DOC) due to overall competitive scenario in the export market. Capacity utilization of its refined oil segment increased from 61% during FY19 to 79% during FY20 whereas capacity utilization of solvent extraction remained low and declined during FY20. Capacity utilization of solvent extraction segment remained low on the back of company management's conscious effort to focus on value added products. TOI of KNL further grew by 20.41% to Rs.171.33 crore during Q1FY21 on y-o-y basis led by volume backed growth as well as growth in average sales realization of refined oil and soya meal with increase in export sales.

Over the last two years-ended FY20, KNL has significantly reduced its dependence on external borrowings (total debt reduced from Rs.29.59 crore as on March 31, 2018 to Rs.9.03 crore as on March 31, 2020) on the back of strong cash accruals and healthy cash flow from operation; and absence of any major capex. Overall gearing of KNL stood comfortable at 0.10x as on March 31, 2020 which improved from 0.18 times as on March 31, 2019. Debt profile of KNL as on March 31, 2020 comprised

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

of working capital borrowing of Rs.6.21 crore and lease liability of Rs.2.82 crore. Its outstanding working capital borrowing was 'nil' as on June 30, 2020.
With decline in debt levels, PBILDT interest coverage exhibited continuous improvement over the years and stood comfortable at 16.02x in FY20 and 52.41x in Q1FY21. Total debt to gross cash accruals (GCA) remained comfortable at 0.46x in FY20. Moreover, KNL has higher capital efficiency marked by healthy return indicators with return on capital employed (ROCE) of 25.20% and return on net-worth (RONW) of 24.55% in FY20.

***No major impact of COVID-19 pandemic on the operations of the company***
Edible oil was classified as 'Essential Item' by the government during the nationwide lockdown. Consequently, the manufacturing plant of KNL was operational even during the lockdown period; albeit with reduced capacity and manpower. Initially, there were some issues related to labour availability and logistics but the same gradually improved. As a result, KNL's TOI and profitability improved during Q1FY21 both on y-o-y as well as q-o-q basis. Further, KNL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities.

***Experienced promoters and KNL's established operations in solvent extraction and edible oil industry***
Mr. Shiv Singh Mehta (Chairman and Managing Director) who looks after overall operations of KNL is a qualified engineer and holds master's degree in business administration with an experience of more than two decades in the edible oil seed extraction and refining business. Mr. Mehta is assisted by his son Mr. Saurabh Singh Mehta in the capacity of Whole-time Director in the overall functioning of the company. This apart, KNL's board also includes experienced independent directors 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).
KNL has an established track record of over two decades in the solvent extraction and edible oil refining business. Its refined edible oil brand 'Kriti', is well-known in central India's branded edible oil market (mainly Madhya Pradesh), due to which its refined oil is sold entirely in the premium retail segment with no bulk sales. It also crushes soya bean seeds to extract crude soya oil and manufactures soya de-oiled cake (DOC) as well as soya value added products. KNL largely exports its soya value added products.
Its group company, Kriti Industries (India) Limited (KIL; rated CARE BBB+; Stable/CARE A2) is engaged in manufacturing of plastic pipes (PVC, HDPE, LDPE), ducts, fittings and mouldings at its manufacturing facility located in Madhya Pradesh.

***Wide marketing and distribution network along with wide portfolio of value added products; albeit geographical concentration***
KNL has a diversified product portfolio which includes refined edible oil (majorly Soyabean refined oil), Soya de-oiled cake (DOC), lecithin, value added products like Soya flakes, soya grits, soya flour and other soya based products (soya chhilka, soya acid oil, Soya HI protein). During FY20, KNL derived nearly 77% of its net sales from refined oil, 20% from soya meal and balance 3% from lecithin and other products.
KNL has a wide network of more than 200 dealers spread across India; albeit with major focus on Central India. Though KNL has presence in 17 states, majority of its domestic sales are still concentrated in the state of Madhya Pradesh with 91% share (of domestic sales) in FY20.
KNL is also planning to expand 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 and value-added products.

***Liquidity: Adequate***
KNL has adequate liquidity marked by healthy cash accruals with no long term debt repayment obligations, lean operating cycle, comfortable liquidity ratios and moderate utilization of its fund-based working capital limits at an average of 47% during the trailing 12 months ended June 30, 2020. The operating cycle remained lean at 28 days in FY20. Cash flow from operation moderated from Rs.18.52 crore during FY19 to Rs.14.02 crore during FY19. However, current ratio and quick ratio improved from 1.83x and 0.81x respectively as on March 31, 2019 to 2.12x and 1.12x respectively as on March 31, 2020. KNL has also extended loans & advances of Rs.12 crore to its group company (KIL) which is repatriable on demand as articulated by the company management.

**Key Rating Weaknesses**
***Moderate profitability***
Profit before interest, lease, depreciation and tax (PBILDT) margin of KNL moderated by 136 bps during FY20 on account of lower absorption of fixed cost related to solvent extraction business segment and increase in soyabean seed prices which KNL was not able to fully pass on to its customers (Soya meal, flakes, lecithin etc.) due to competitive export scenario. The

moderation in its PBILDT margin was also on account of undertaking certain research activities towards new product development. Despite decline, PBILDT margin continued to remain at moderate level. Profit after tax (PAT) margin, however, improved by 14 bps from 3.49% in FY19 to 3.63% in FY20 on the back of lower interest cost with significant reduction in total debt level of the company.
In Q1FY21, PBILDT margin improved to 7.04% as compared to 4.91% in Q1FY20 with better sales realization and increased demand from export market for its non-edible oil business. With growth at PBILDT level and decline in the interest, PAT margin too improved from 2.65% in Q1FY20 to 4.76% in Q1FY21.
Significant improvement in its profitability margin through greater share of value-added products in its sales-mix, along with deeper geographical and brand penetration of its refined edible oil business on a sustained basis would be the key rating sensitivity.

***Seasonality associated with availability of soya seeds***
Crude soya oil and soya bean seeds are the main raw material for KNL. Soyabean seeds are purchased locally from farmers and local mandis whereas it purchases crude soyabean oil in bulk from various importers. Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from mandis in Madhya Pradesh. Solvent extraction operation of KNL depends upon the availability of seed, its quality and parity with international DOC prices. 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 prices and forex rates***
The prices of KNL's major raw materials are determined on the basis of demand-supply dynamics, which in turn depends upon crop pattern, rainfall, area under cultivation as well as minimum support price announced by the government every year. Prices also reflect the international demand-supply gap and weather conditions in major soya growing nations such as USA, Brazil, China, India and Argentina. Crude edible oil prices can vary depending upon cost of import, agro climatic condition in major cultivating countries as well as regulatory policy (import/export duty) which also affects the price differential among other edible oil alternatives.
KNL derived 19% of its revenue from exports in FY20 (21% in FY19) whereas import on the other hand was 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 for hedging its foreign exchange exposure against its exports. Further, over the years, KNL's management has practiced sound inventory management policy resulting in stable gross margin in branded refined edible oil.

***Presence in the competitive refined edible oil and solvent extraction industry along with its moderate scale***
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. India is one of the major soya seed producing countries with fair share in exports of soya meal. However, since last 3-4 years, the industry is facing problem due to disparity between prices of domestic soya seed and international soya meal due to bumper soyabean crop in major soya growing countries like USA, Brazil and Argentina.
India is the fourth largest consumer of edible oils after USA, China and Brazil. The per capita consumption of edible oil in India, although growing, is much lower than global average. Thus, the underpenetrated market coupled with positive macro and demographic fundamentals entails stable demand growth outlook over the medium to long term. With increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase, which would provide more pricing power to the branded players.
However, KNL has a very small share of the overall domestic edible oil market with a TOI of around Rs.400 crore (refined edible oil) and geographically concentrated operations compared with many larger edible oil players in the industry who also have wider geographical reach and presence across multiple edible oils.

**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, KNL (CIN: L24132MP1996PLC011245) is primarily engaged in the manufacturing of refined soya edible oil and soya bean based value added products. The main products of KNL include branded refined soya oil, soya De-Oiled Cake (DOC)/ soya meal, soya flakes, soya grits, soya floor and soya lecithin. KNL sells its refined edible oil under the brand 'Kriti' which is an established name in Central India. 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, 2020.

KNL was de-merged in January 2010 from Kriti Industries (India) Limited *(KIL)*. KIL had two divisions before the demerger, viz, edible oil & solvent extraction along with plastic fittings & engineered auto components. The plastic fittings & engineered auto components division continues to remain with KIL.

*(Rs. crore)*

| Brief Financials | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 486.23 | 523.66 |
| PBILDT | 31.87 | 27.20 |
| PAT | 16.95 | 19.01 |
| Overall gearing (times) | 0.18 | 0.10 |
| Interest coverage (times) | 13.20 | 16.02 |

*A: Audited*

As per the published results, KNL earned a PAT of Rs.8.16 crore on a TOI of Rs.171.33 crore in Q1FY21 as against PAT of Rs.3.77 crore on a TOI of Rs.142.29 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/ ST-Working Capital Limits | - | - | - | 22.00 | CARE A-; Stable / 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 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/ ST-Working Capital Limits | LT/ST | 22.00 | CARE A-; Stable / CARE A2+ | - | 1)CARE BBB+; Positive / CARE A2 (01-Oct-19) | 1)CARE BBB+; Positive / CARE A2 (03-Oct-18)<br>2)CARE BBB+; Positive / CARE A2 (25-Sep-18) | 1)CARE BBB+; Stable / CARE A2 (06-Mar-18)<br>2)CARE BBB; Stable (05-Oct-17) |
| 2. | Non-fund-based - ST-Credit Exposure Limit | ST | 4.00 | CARE A2+ | - | 1)CARE A2 (01-Oct-19) | 1)CARE A2 (03-Oct-18) | - |

**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/ ST-Working Capital Limits | Simple |
| 2. | Non-fund-based - ST-Credit Exposure Limit | 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.*

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