The Kutch Salt and Allied Industries Limited
April 1, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	23.97 (enhanced from Rs.11.90 crore)#	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Long-term Bank Facilities	30.38 (reduced from Rs.36.16 crore)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	***Revised from CARE BBB (CE); Negative [Triple B (Credit Enhancement); Outlook: Negative]**
Long-term/ Short-term Bank Facilities	30.00 (enhanced from Rs.15.00 crore)#	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Totals	**84.35 (Rupees Eighty Four Crore and Thirty Five Lakh only)**		

Details of facilities in Annexure-1
**This rating was previously based on the credit enhancement in the form of co-borrower arrangement with M/s Friends Salt Works & Allied Industries (FSWAI; Rated CARE BBB-; Stable; revised from CARE BBB; Negative in March 2020). However, CARE has now rated this on a standalone basis as the co-borrower no longer provides any credit enhancement to this facility.*
#previously included in long term proposed limit of Rs.15 crore is now sanctioned as long term/ short term fund based limit

Detailed Rationale & Key Rating Drivers
The revision in the long term rating assigned to the bank facilities of The Kutch Salt and Allied Industries Limited (KSAIL) is on account of significant improvement in its operating profitability and debt coverage indicators during FY19 (FY refers to the period from April 1 to March 31) and growth in scale of operations in H1FY20 (refers to the period from April 1 to September 30) with continued healthy profitability on back of increase in export of salt.
The rating further continues to derive strength from KSAIL's strong parentage with presence of 'Friends Group' across diversified business segments and location-specific advantage of KSAIL from operating at the Deendayal Port.
The ratings, however, continue to remain constrained on account of its moderate scale and leverage, long operating cycle and susceptibility of its profitability to climatic conditions. The ratings are further constrained on account of its exposure to volatility in foreign exchange rates along with presence of KSAIL in highly fragmented and competitive salt processing industry.

Rating Sensitivities
Positive Factors
- Volume based increase in scale of operations to more than Rs.200 crore along with diversification in customer base
- Improvement in its overall gearing to around 1x and Total Debt/GCA to around 2x on sustained basis
- Reduction in gross current asset days leading to its operating cycle falling to around 120 days on sustained basis

Negative Factors
- Significant decline in profitability with PBILDT margin below 25% on sustained basis or any significant increase in inventory levels impacting its liquidity position
- Deterioration in the capital structure with overall gearing going above 2 times on a sustained basis

Detailed description of the key rating drivers
Key Rating Strengths
Significant improvement in operating profitability and growth in scale of operations during H1FY20; albeit remained at moderate scale: Total operating income (TOI) of KSAIL remained largely in line with previous year at Rs.57.38 crore on account of substantial decrease in sales volume of salt which was however offset by healthy realization in salt manufacturing segment. Further, there was sizable growth of 68% in revenue from renewable energy segment (FY19: Rs.10.39 crore). Earlier KSAIL sold manufactured salt to FSWAI (group entity) with low margins and subsequent to that FSWAI sold salt to end customers with very high margins. However, post implementation of GST, the credit of GST paid on lease rentals to DPT will be available only if the salt is exported by the entity which owns the leased land for salt production. Consequently, export contracts with the international clients of FSWAI were renegotiated for direct supply by KSAIL and the same had resulted in significant improvement in profitability in FY19 and H1FY20. KSAIL had reported

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

PBILDT margin of 57.83% during FY19 as compared to 24.44% in FY18. Further, with stable interest and depreciation cost same has resulted in healthy PAT margin of 26.47% during FY19.
During FY19 debt coverage indicators of KSAIL improved significantly marked by interest coverage ratio of 4.46x in FY19 (2.77x in FY18) and total debt to gross cash accrual of 4.79x in FY19 (8.34x in FY17) on account of healthy profitability.
During H1FY20, KSAIL reported a significant growth in TOI to Rs.91.95 crore with a healthy PBILDT of Rs.54.08 crore with increased exports.

Strong parentage with presence of Friends group across diversified business segments: Gandhidham (Gujarat) based Friends Group is promoted by the Singhvi family and has a leading presence of more than three decades at Deendayal Port. The group is engaged across diversified business activities like salt manufacturing & trading, cargo handling & other port related services, warehousing, liquid storage facility (tank terminals), renewable power generation, manufacturing of castor oil as well as other agro products and trading of various commodities. Friends group is one of the leading salt producers and exporters and has more than 10 Lakh square feet of warehousing capacity, around 6.40 lakh KLs of liquid storage tank terminal capacity (around 25% of the total privately owned operational liquid storage capacity at DPT) with capability to handle liquid chemicals, petroleum products & edible oil and cumulative renewable power generation capacity of more than 100 MW.

Presence in Kutch with easy access to salt as well as proximity to DPT: KSAIL is located near DPT, Kutch which is one of the major ports in Western India. Manufacturing of salt constituted around 82% of the total operating income of KSAIL during FY19 and its presence in one of India's major salt producing region helps it in terms of lesser logistics cost, ease in material procurement along with easy access to export customers.

Liquidity- Adequate: Liquidity of KSAIL is adequate marked by moderate utilization of working capital limits and healthy gross cash accruals against moderate debt repayment obligations. KSAIL had reported gross cash accrual of Rs.22.23 crore against loan repayment of Rs.15 crore in FY19. Further it is expected that same will improve significantly in FY20. The average utilisation of fund based working capital remained at around 85% during the 12 months ended February, 2020 primarily on account of utilization of EPC facility for export sales. The current ratio remained at 1.83x as on March 31, 2019 (2.58x as on March 31, 2018).

Key Rating Weaknesses
Moderately leveraged capital structure: The capital structure of KSAIL remained moderately levered despite improvement in its overall gearing from 1.72x as on March 31, 2019to 1.12x as on September 30, 2019.

Long working capital cycle: In FY19, KSAIL's working capital cycle elongated to 648 days. This was largely on account of higher inventory holding of finished goods (Rs.50.57 crore) as on March 31, 2019. The same was largely funded through availment of working capital bank borrowings (export packing credit). However, on completion of the export order the same reduced to Rs.31.06 crore as on September 30, 2019. The collection period was, however, elongated during H1FY20, as outstanding receivables increased from Rs.1.54 crore as on March 31, 2019 to Rs.35.92 crore as on September 30, 2019.

Exposure to volatility in foreign exchange rates: With increased proportion of export sales to total sales of KSAIL, it exposes the company to the risk of adverse movement in foreign exchange rates. In absence of any active hedging policy, KSAIL remains exposed to foreign exchange fluctuation risk. However, the healthy operating profitability allows KSAIL to absorb the effect of anticipated volatility in forex rates to an extent.

Susceptibility of profitability to climatic conditions and presence in the highly fragmented salt processing industry: The salt industry is highly fragmented with presence of numerous regional and unorganized players. Further, the business is seasonal and highly dependent on weather conditions and remains exposed to natural calamity. However, TFL derives benefit on account of its strategic location in terms of suitability of land and its proximity to DPT.

Analytical Approach: Standalone while factoring in its linkage in the form of company being a part of Friends Group of Gandhidham, Gujarat.
Earlier, for one of the term loan, CARE had considered the credit enhancement in the form of co-borrower structure with FSWAI. However, now both entities have same credit rating and hence the co-borrower structure does not provide any credit enhancement; consequently this term loan is also now rated on its standalone assessment.

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
CARE's methodology for Private Power Producers
Financial ratios – Non-Financial Sector
Consolidation and Factoring Linkages in Rating

About the Company:
Incorporated in 1950 as a limited company, The Kutch Salt and Allied Industries Ltd (KSAIL; CIN - L24238MH1950PLC008313) is a part of Friends Group based out of Gandhidham, Gujaraot. KSAIL is engaged in the business of raw salt production which it carries out on lease hold land of 3891 acres at Kandla obtained from Deendayal Port Trust (DPT). KSAIL also has aggregate wind power generation capacity of 15.60 MW and solar power generation capacity of 2 MW as on September 30, 2019.

Brief financials of KSAIL are tabulated below:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	58.40	57.38
PBILDT	14.27	33.18
PAT	3.71	15.18
Overall gearing (times)	1.66	1.72
Interest coverage (times)	2.77	4.46

A: Audited
During H1FY20 (provisional), KSAIL reported TOI of Rs.91.95 crore with PBT of Rs.31.05 crore.

Status of non-cooperation with previous CRA: None

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-Bank Overdraft	-	-	-	4.90	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	September, 2027	19.07	CARE BBB-; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	30.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	March, 2025	30.38	CARE BBB-; Stable

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-Bank Overdraft	LT	4.90	CARE BBB-; Stable	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (13-Apr-17)	-
2.	Fund-based - LT-Term Loan	LT	19.07	CARE BBB-; Stable	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (13-Apr-17)	-
3.	Fund-based - LT/ ST-EPC/PSC	LT/ ST	30.00	CARE BBB-; Stable / CARE A3	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (13-Apr-17)	-
4.	Fund-based - LT-Term Loan	LT	30.38	CARE BBB-; Stable	1)CARE BBB (CE); Negative	1)CARE BBB+ (SO); Stable	-	-

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
					(05-Apr-19)	(06-Apr-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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About CARE Ratings:
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