Press Release

Khaitan Chemicals And Fertilizers Limited

February 15, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to the Rs. 30.00 crore bank facilities of Khaitan Chemicals And Fertilizers Limited (KCFL). The outlook is **'Stable'**.

Incorporated in 1982, KCFL is a Madhya Pradesh based company promoted by Mr. Sailesh Kumar Khaitan, Mr. Utsav Khaitan and Mr. Jagdishlal Jajoo. KCFL manufactures single super phosphate and sulphuric acid with operations in Madhya Pradesh, Uttar Pradesh, Rajasthan, Chhattisgarh and Gujarat. The company has an installed capacity of 11,13,500 MT of single super phosphate (SSP) and 2,70,600 MT of sulphuric acid. Additionally, the company also has 1400 TPD capacity of soya bean crushing and 100 TDP soya bean edible oil refinery located at Ratlam (Madhya Pradesh).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KCFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established market position in fertilizer sector and wide distribution reach**

  KCFL has a long track record of more than three decades in the SSP segment leading to an established market position with more than 10 percent market share pan India and over 20 percent market share in Madhya Pradesh. The company has diversified presence in more than 6 states with over 2000 distributors and dealer network which include Madhya Pradesh, Gujarat, Punjab, Haryana, Rajasthan and Telengana. Further, KCFL is in process of establishing its brand presence in West Bengal, Assam and North Eastern states. The same is expected to augment its revenue profile in the medium term.

  Acuité believes that KCFL's business profile will continue to benefit from the established presence in the SSP segment backed by strong managerial support.

- **Moderate financial risk profile**

  KCFL exhibits moderate financial risk profile marked by healthy net worth, moderate gearing and modest debt protection metrics. The net worth stood at Rs.130.08 crore in FY2018 as against Rs.128.68 crore in the previous year. The gearing improved marginally from 1.54 times in FY2017 to 1.27 times in FY2018 on account of repayment of term loans. Going forward, the gearing is expected to improve on account of gradual repayment of term loan and improved cash accruals in FY2018-2019 on account of better profit realisations. The debt protection metrics remained modest with ICR of 1.42 times in FY2018. Net cash accruals to total debt remained low at 0.06 times as against 0.04 times in the previous year.

- **Stable revenue profile and healthy profitability**

  KCFL's revenue profile remained stable with operating revenue of Rs.353.81 crore in FY2018 as against Rs.358.10 crore in the previous year. Additionally, the company has achieved revenue of Rs.200.00 crore (Provisional) till December, 2018. The profitability metrics declined marginally but remained healthy with gross profit margin of 10.27 percent in FY2018 as against 10.83 percent in the previous year. The profitability has registered significant improvement in the first half of FY2019 with gross profit margin of 12.31 percent on account improved realisation from higher sales of sulphuric acid. The net profit margins remained subdued on account of high interest cost and depreciation resulting from significant working capital requirement and capex undertaken in the previous years.

However, the same has registered an improvement in H1 of FY2019 on account of improved working capital operations resulting in lower.

Weaknesses

- **Working capital intensive nature of operations**
  KFCL's operations are working capital intensive marked by gross current assets (GCA) of more than 275 days in FY2018 as against 310 days in FY2017. The GCA days is primarily dominated by credit extended to its dealer network of 101 days and inventory of 86 days. Additionally, the GCA is dominated by subsidies receivables of Rs.72.50 Crore in FY2017-2018. KCFL's working capital operations is expected to remain susceptible to delay in disbursement of subsidy resulting in higher reliance on short-term working capital debt and will continue to remains a key rating sensitivity factor. However, with the rollout of direct benefit transfer (DBT), Acuité believe that the working capital cycle will show moderation on account of decline in pre-placement of its product in the market. The same has impacted the inventory management policies at KCFL and credit period extended to distributors in the preceding two quarters and resulted in lower utilisation of working capital requirements. The liquidity profile has improved over the past six months marked by average bank limit utilisation of 79.50 percent for the past six months through December 2018.

- **Revenue profile susceptible to agro climatic risk, forex exposure and government regulation**
  Agriculture sector in India remains vulnerable to the vagaries of monsoon. Any adverse movement in monsoon results in volatility in the sales and profitability of the fertilizer sector. Further, fertilizer industry in India is highly regulated in nature with intervention of the Government of India (GoI) in fixation and release of the subsidy amount. Moreover, urea the other important fertilizer in the country continues to be regulated thus impacting the demand for complex fertilizers such as SSP and consequently the credit profile of complex fertilizer manufacturers. Additionally, delay in disbursement of subsidy results in higher reliance on short-term working capital debt, leading to high interest costs and thus, remains a key rating sensitivity factor. KCFL's profitability is further susceptible to foreign exchange volatility as its main raw material (rock phosphate) is primarily imported from Egypt.

Liquidity Profile

KCFL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 9.89-10.35 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs. 6.71-9.84 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meets its repayment obligations during 2019-21. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 275 in FY 2018. The cash credit limit in the company remains utilised at around 80 percent during the last 6 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.30 crore as on March 31, 2018. The current ratio of the company stands moderate at 1.25 times as on March 31, 2018. The company has no capex plans in the medium term. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of steady cash accrual sufficient to meet its repayments over the medium term.

Outlook: Stable

Acuité believes that KCFL will maintain a 'Stable' outlook over the medium term owing to its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if the scale of operations increases on the back of further increase in revenue profile, while maintaining its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the financial risk profile deteriorates or there is further elongation in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	353.81	358.10	392.43
EBITDA	Rs. Cr.	36.35	38.78	40.06
PAT	Rs. Cr.	1.64	1.66	1.66
EBITDA Margin	(%)	10.27	10.83	10.21
PAT Margin	(%)	0.46	0.46	0.42
ROCE	(%)	8.15	9.07	18.26
Total Debt/Tangible Net Worth	Times	1.27	1.54	1.50
PBDIT/Interest	Times	1.42	1.33	1.40
Total Debt/PBDIT	Times	4.94	5.37	5.16
Gross Current Assets (Days)	Days	275	310	249

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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