Acuité RATINGS & RESEARCH

Press Release

Khaitan Chemicals and Fertilizers Limited

October 09, 2019

Rating Withdrawn

Total Bank Facilities Rated	Rs. 30.00 Cr. #
Long Term Rating	ACUITE BBB- (Withdrawn)

 # Refer Annexure for details

Acuité has withdrawn long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 30.00 crore bank facilities of Khaitan Chemicals and Fertilizers Limited (KCFL).

The withdrawal is on account of client's request and receipt of NOC from the banker. The withdrawal is in accordance with Acuité's policy on withdrawal.

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 profile of KCFL to arrive at this 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 per cent market share pan India and over 20 per cent 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 Telangana. 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.

- **Improvement financial risk profile**
  KCFL exhibits moderate financial risk profile marked by healthy net worth, improvement in gearing and debt protection metrics. The net worth stood at Rs.138.09 crore in FY2019 as against Rs.130.08 crore in the previous year. The gearing improved to 0.99 times in FY2019 from 1.55 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 on account of better profit realisations. The debt protection metrics improved marginally with with ICR of 1.96 times in FY2019 as against 1.42 times in FY2018. Net cash accruals to total debt improved to 0.13 times during FY2019 as against 0.05 times in the previous year.

- **Stable revenue profile and healthy profitability**

  KCFL's revenue profile remained stable with marginal improvement in operating revenue during FY2019. The revenue improved to Rs. 372.68 crore FY2019 as against Rs. 358.10 crore in the previous year. Additionally, the company has achieved revenue of Rs.106.47 crore (Provisional) during the quarter ended June 2019. The profitability metrics improved significantly with EBITDA margin of 11.49 per cent in FY2019 as against 10.27 per cent in the previous year. The net profit margins also improved to 2.12 per cent in FY2019 as against 0.46 per cent in FY2018.

Weaknesses

- **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.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	372.68	353.81	358.10
EBITDA	Rs. Cr.	42.82	36.35	38.78
PAT	Rs. Cr.	7.90	1.64	1.66
EBITDA Margin	(%)	11.49	10.27	10.83
PAT Margin	(%)	2.12	0.46	0.46
ROCE	(%)	11.27	8.15	9.07
Total Debt/Tangible Net Worth	Times	0.99	1.55	1.86
PBDIT/Interest	Times	1.96	1.42	1.33
Total Debt/PBDIT	Times	3.15	5.37	5.76
Gross Current Assets (Days)	Days	228	275	310

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments- https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Feb-2019	Cash credit	Long Term	30.00	ACUITE BBB-/Stable (Assigned)

#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- (Withdrawn)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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