

Press Release

Kent Chemicals Private Limited

December 08, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.50	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	19.50	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	27.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**), and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from **ACUITE A4** (read as **ACUITE A four**) on the Rs. 27.00 crore bank facilities of Kent Chemicals Private Limited (KCPL). The outlook is '**Stable**'.

Rationale for rating upgrade

Earlier the rating of KCPL was downgraded on account of information risk and now Acuité has received all the information and has therefore undertaken a review. Further, the rating upgrade takes into account increase in KCPL's revenue and comfortable financial risk profile. It also draws comfort from company's experienced management and established track record of operations. However, the moderation in KCPL's operating profitability and moderate working capital intensive operations along with susceptibility of margins to volatility in raw material prices and foreign exchange fluctuations acts as a constraining factor for the rating. Ability of the company to maintain its scale of operations and any further deterioration in the operating and profitability margin along with ability to improve working capital cycle over the medium term will remain a key rating sensitivity factor.

About the Company

KCPL incorporated in the year 2004, is engaged in the manufacturing of liquid paraffin oil and white oil used in the pharmaceuticals, fast-moving consumer goods, lubricants, polymers, cosmetics, personal care and automotive industries. The company has its manufacturing unit located at Bagru, Jaipur.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

KCPL is engaged in manufacturing of liquid paraffin oil and white oil used in the pharmaceuticals, fast-moving consumer goods, lubricants, polymers, cosmetics, personal care and automotive industries. It has an established operational track record of around two decades. It is promoted by Mr. Ankur Sachdeva, who possess nearly two decades of experience in the oil industry. He is supported by his wife Mrs. Preeti Sachdeva as a director of the company, who possess around a decade of experience in the same industry. The promoter & director are being supported by its team of experienced professionals in managing day to day operations of KCPL. The extensive experience of the promoter and director has enabled KCPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that KCPL will continue to benefit from its experienced management and established track record of operations.

Comfortable financial risk profile

Financial risk profile of KCPL is comfortable marked by moderate networth, low gearing and comfortable debt protection metrics. The networth of the company has improved to Rs.39 Cr as on 31 March, 2022 as against Rs.22 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) has improved and remained low at 0.40 times as on 31 March, 2022 as against 0.67 times as on 31 March, 2021 on account of improved networth vis-à-vis its total debt obligations. The gearing of the company is further expected to improve and remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.15 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.2 Cr and short term bank borrowings of Rs.13 Cr.

The interest coverage ratio and DSCR stood comfortable at 13.37 times and 7.97 times for FY2022 as against 17.83 times and 9.70 times for FY2021. The Net Cash Accruals to Total debt stood improved at 1.11 times for FY2022 as against 0.92 times for FY2021. The Total outside liabilities to Tangible net worth stood marginally high at 1.76 times for FY2022 as against 1.13 times for FY2021.

Acuité believes that the financial risk profile of KCPL will remain comfortable in near to medium term due to its low debt levels vis-à-vis moderate tangible net worth and comfortable debt protection metrics.

Increase in revenue albeit moderation in profitability

KCPL reported revenues of Rs.266 Cr for FY2022 as against Rs.165 Cr in FY2021 which is a growth of ~61 percent and has achieved this improvement on account of increase in the demand of its wide range of liquid paraffins and white oils from its customers across various industries like pharmaceuticals, personal care, cosmetics amongst others. On the other hand, to meet the rising demand of its products, the company has therefore focused on increasing its existing production capacity of its base oil to 60,000 kilo litres in FY2022 against that of 24,000 kilo litres in FY2021. Despite of an increase in the overall revenue, the operating margin of the company however declined to 9.07 percent in FY2022 as against 11.51 percent in FY2021 on account of increase in the crude oil and other raw material prices. The net profit margin of the company also declined to 6.16 percent in FY2022 as against 8.04 percent due to an increase in the depreciation and interest cost during the year.

For the current year FY2023, as on July 2022, the company has however achieved lower revenue of Rs.62 Cr on the back of servicing less orders considering the fluctuating crude oil and other raw material prices and further it is estimated that the overall revenue of FY2023 is expected to remain at almost same level of FY2022 as the company specifically targets to focus on sustaining its existing levels of operating and profitability margins despite of no major growth in sales expected over the medium term.

Acuité believes that the ability of KCPL to maintain its scale of operations and any further deterioration in the operating and profitability margin in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive operations

The operations of KCPL are moderately working capital intensive marked by its Gross Current Assets (GCA) of 111 days for FY2022 as against 80 days for FY2021. This is primarily on account of high inventory days which stood at 96 days in FY2022 as against 71 days in FY2021 on account of increase in the purchase of required raw materials to meet the existing customer orders and to procure adequate raw materials in advance to avoid any delays in completing the future orders. On the other hand, receivable cycle of the company stood marginally high at 19 days in FY2022 as against 12 days in FY2021 while the creditors cycle stood elongated at 55 days in FY2022 as against 12 days in FY2021.

Acuité believes that KCPL's ability to improve its working capital cycle over the medium term will remain a key rating sensitivity factor.

Susceptibility of margins to volatility in raw material prices and foreign exchange fluctuations

The operating and profitability margins of KCPL are expected to remain susceptible to fluctuations in the crude oil and other raw material prices. The company is also exposed to forex risk as it imports around 90-95 percent of its raw materials and is therefore susceptible to foreign currency fluctuations.

Rating Sensitivities

- Ability to maintain scale of operations and any further deterioration in the operating and profitability margin
- Ability to improve working capital cycle

Material covenants

None

Liquidity position - Adequate

KCPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.3 Cr to Rs.17 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.0.44 Cr to Rs.0.47 during the same period. Going forward the NCA are expected in the range of Rs.18 Cr to Rs.19 Cr for period FY2023-FY2024 against its repayment obligation in the range of Rs.0.50 Cr to Rs.0.52 Cr for the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 111 days for FY2022 as against 80 days for FY2021 on account of high inventory cycle during the same period. The average bank limit utilization for 6 months' period ended September 2022 stood lower at ~47 percent. Current ratio stands at 1.53 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.05 Cr in FY2022.

Acuité believes that the liquidity of KCPL is likely to remain adequate over the medium term on account of adequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that KCPL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	266.21	165.36
PAT	Rs. Cr.	16.41	13.30
PAT Margin	(%)	6.16	8.04
Total Debt/Tangible Net Worth	Times	0.40	0.67
PBDIT/Interest	Times	13.37	17.83

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

Crisil vide its press release dated 23.03.2022, reaffirmed KCPL at Crisil B+/A4; INC.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Feb 2022	Proposed Bank Facility	Long Term	0.50	ACUITE B+ (Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	11.50	ACUITE B+ (Issuer not co-operating*)
23 Nov 2020	Proposed Bank Facility	Long Term	0.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	15.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	11.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
27 Sep 2019	Cash Credit	Long Term	11.50	ACUITE BB- Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Upgraded (from ACUITE B+)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE A3 Upgraded (from ACUITE A4)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.01	ACUITE BBB- Stable Upgraded (from ACUITE B+)
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.49	ACUITE BBB- Stable Upgraded (from ACUITE B+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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