

Press Release

Krishna Speciality Chemicals Private Limited

September 07, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 16.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and the short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs.16.00 crore bank facilities of Krishna Speciality Chemicals Private Limited. The outlook is **'Stable'**.

The rating on KSCPL is driven by the extensive experience of the management in the chemical industry and established market position along with strong association with reputed clientele. The rating also reflects the comfortable financial risk profile and adequate liquidity position of the company. However, these strengths are partially offset by the working capital intensive nature of operation and moderate scale of operation of the company.

About the company

Incorporated in 1993, Krishna Speciality Chemicals Private Limited is a Chhattisgarh-based company promoted by Mr. Arun Lal Agarwal, Mr. Sanjay Agarwal, Mr. Sandeep Agarwal and Mr. Aditya Agarwal. The company is engaged in manufacturing of speciality chemicals which is used in cement industry, fertilizer industry, paper industry and explosive industry among others with the installed capacity of 20,000 MTPA.

About the group

Protech Shine Care & LLP was established in 2017 by Mr. Sandeep Agarwal and Mr. Sanjay Agarwal and started its commercial operation from April 2019. The firm is engaged in manufacturing of wall care putty and paint with an installed capacity of 7000 MTPA. The firm has manufacturing facility located in Raipur, Chhattisgarh.

Analytical Approach:

Acuite has consolidated the financial and business risk profile of Krishna Speciality Chemicals Private Limited (KSCPL) and Protech Shine & Care LLP (PSCL), referred to as Krishna Group. The same is on account of common management, significant financial linkages in terms of corporate guarantee and unsecured loan given by Krishna Speciality Chemicals towards Protech Shine & Care LLP. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Experienced management and strong association with reputed clientele

The group has operational track record of more than 25 years in the chemical industry and the directors of the group Mr. Arun Lal Agarwal, Mr. Sanjay Agarwal, Mr. Sandeep Agarwal and Mr. Aditya Agrwal has more than two decades of experienced in this industry. This has helped the group to establish a healthy relationship with its customers. The group caters to reputed clientele mostly from the cement industry such as Ambuja Cement Limited, ACC Limited, JK Lakshmi Cement Ltd, Ultratech Cement Limited, NU Vista Limited among others. The group also supplies chemicals to Paradeep Phosphates Limited and started supplying wall putty and paint to JK Lakshmi Cement Limited from April 2020 onwards. Acuite believes that the group will benefit from the experience of the management in the chemical industry in developing healthy relationships with its customers and suppliers. Further, the group will also benefit from its reputed clientele to mitigate the counter party risk.

Established market position

The group is earning around 80 per cent of its total revenue from the cement industry. The group is catering to approx. 15-20 per cent of domestic organised players in the cement industry which uses speciality chemicals as a productivity enhancer. The domestic market has 500 million tons of installed capacity in cement industry out of which actual production is 298 million tons per annum. The group is catering only to the organised player who uses speciality chemicals to improve the productivity of the cement. Acuite believes the group will be able to maintain its growth momentum going forward on account of steady demand in the market along with well-established position in domestic market.

Improvement in profitability margin

The operating profitability margin of the group has improved to 12.01 per cent in FY2021 (Prov.) as compared to 3.89 per cent in the previous year. The sharp improvement in operating profitability margin is on account of decrease in cost of the raw chemical during the period. Further, the profitability margin of the group had gone down during FY2020 to 3.89 per cent as compared to 7.23 per cent in FY2019, mainly on account of operating loss in their new unit (Protech Shine & Care LLP) during FY2020.

Simultaneously, the net profitability margin of the group also increased to 4.95 per cent in FY2021 (Prov.) as compared to (4.65) per cent in the previous year. The net profitability margin of the group had contracted significantly during FY2020 to (4.65) per cent as compared to 2.09 per cent in FY2019, mainly due to net loss in Protech Shine & Care LLP during FY2020. Acuite believes that the profitability margin of the group will sustain at current levels backed by the group's established market position and healthy relation with reputed clientele. Further, the diversified product profile will also help the group to mitigate the raw material price fluctuation going forward.

Comfortable financial risk profile

The financial risk profile of the group is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the group stood moderate at Rs.45.52 crore in FY 2021 (Prov.) as compared to Rs 27.71 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuite has considered Rs.12.00 crore of unsecured loan as quasi capital as the same amount is subordinated to bank debt. The gearing of the group stood low at 0.53 times as on March 31, 2021 (Prov.) when compared to 1.36 times as on March 31, 2020. This improvement in gearing is mainly on account of increase in networth during the period. Interest coverage ratio (ICR) is strong and stood 4.00 times in FY2021 (Prov.) as against 1.04 times in FY 2020. The debt service coverage ratio (DSCR) of the group also stood comfortable at 2.60 times in FY2021 (Prov.) as compared to 0.93 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.36 times in FY2021 (Prov.) as compared to (0.01) times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain comfortable on account of steady net cash accruals and no major debt funded capex plan.

Weaknesses

Working capital intensive nature of operation

The working capital intensive nature of operation of the group is marked by high gross current asset (GCA) days of 157 days in FY2021 (Prov.) as compared to 208 days in the previous year. These high gross current asset (GCA) days are mainly on account of high other current asset of Rs.15.72 crore in FY2021 (Prov.), which mainly consists of loans and advances given to the group related entity. However, the inventory holding period of the group stood moderate at 42 days in FY2021 (Prov.) as compared to 46 days in the previous year. The debtor days of the group improved to 65 days in FY2021 (Prov.) as compared to 89 days in the previous year. The group has utilized ~70 per cent of its total working capital facility for the last six months ended June 2021. Acuite believes any further elongation in working capital would be a key rating sensitivity factor.

Moderate scale of operation

The revenue of the group stood moderate at Rs.117.52 crore in FY2021 (Prov.) as compared to Rs.75.52 crore in the previous year. The revenue increase can be attributed to improvement in sales levels in both KSCPL and Protech Shine & Care LLP. Besides, the group diversified into supplying wall care putty to JK Lakshmi Cement from April 2020 leading to improvement in their overall top line. Acuite believes, the group will improve its top line going forward backed by growing demand of speciality chemicals in the domestic market.

Rating Sensitivity

- Sustenance in turnover growth and profitability margin
- Deterioration in capital structure
- Elongation in Working capital management

Material Covenant

None

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals of Rs.8.78 crore as against Rs.2.38 long term debt obligations in FY2021 (Prov.). The cash accruals of the group are estimated to remain in the range of around Rs. 10.70 crore to Rs. 11.94 crore during 2022-23 as against Rs. 2.38 crore of long term debt obligations FY2022 and in FY2023 respectively. The current ratio of the group stood comfortable at 2.46 times in FY2021 (Prov.). The working capital intensive nature of the company is marked by high Gross Current Asset (GCA) days of 157 days in FY2021 (Prov.). The bank limit of the group has been ~70 percent utilized during the last six months ended in June 2021. Moreover, the group has availed the covid emergency fund of Rs. 5.54 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. However, the group has not availed the loan moratorium till August 2020. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that group will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience and established market position. The outlook may be revised to 'Positive' if the group registers more than expected revenues while maintaining its profitability levels. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve the expected revenue or the working capital cycle further elongates.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	117.52	75.52
PAT	Rs. Cr.	5.81	(3.51)
PAT Margin	(%)	4.95	(4.65)
Total Debt/Tangible Net Worth	Times	0.53	1.36
PBDIT/Interest	Times	4.00	1.04

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	70.45	65.62
PAT	Rs. Cr.	2.66	1.34
PAT Margin	(%)	3.78	2.04
Total Debt/Tangible Net Worth	Times	0.64	0.94
PBDIT/Interest	Times	3.23	3.10

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

CRISIL, vide its press release dated December 18, 2020 had denoted the rating of Krishna Speciality Chemicals Private Limited as 'CRISIL B+/Stable/A4' ISSUER NOT COOPERATING.

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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB/Stable (Assigned)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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