

Press Release

Krishna Speciality Chemicals Private Limited

November 04, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	4.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	16.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 strong association with reputed clientele leading to improving scale of operations. The rating also reflects their 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 significant exposure in group entities.

About 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 an installed capacity of 14,000 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 MTPM. The firm has manufacturing facility located in Raipur, Chhattisgarh.

Analytical Approach

Extent of Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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.

Key Rating Drivers

Strengths

Experienced management and strong association with reputed clientele

The group has an 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 experience 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. Acuité 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.

Improving scale of operations coupled with stable profitability margin

The revenue of the group has significantly improved to Rs.167.86 crore in FY2022 (Prov.) as compared to Rs.116.17 crore in the previous year. This significant improvement in top-line is mainly on account of increase in capacity utilisation by Krishna Speciality Chemicals Pvt Limited (KSCPL) during FY2022 (Prov.) over FY2021 on account of high demand from the cement industry during the period. Further, the revenue of the group has also improved on account of a sharp increase in price realisation per unit in FY2022 (Prov.) as compared to the previous year, backed by increase in raw material price during the period. The group has earned Rs. 79.89 crore till 30th September 2022 (Prov.). Acuité believes, the group will maintain its top line at healthy level going forward backed by growing demand of speciality chemicals in the domestic market coupled with low competition from the organised sector.

The operating profitability margin of the group stood stable at 9.14 per cent in FY2022 (Prov.) as compared to 9.25 per cent in the previous year. This slight deterioration in operating profitability on account of increase in price of raw material globally. Going forward, Acuité believes that the group will be able to improve its operating profitability margin on account of low competition from the organised sector leads to high bargaining power of the group. The net profitability margin of the group also stood comfortable at 6.75 per cent in FY2022 (Prov.) as compared to 4.28 per cent in the previous year.

Comfortable financial risk profile

The financial risk profile of the group is marked by moderate net worth, comfortable gearing and strong debt protection metrics. The net worth of the group stood moderate at Rs.61.70 crore in FY 2022 (Prov.) as compared to Rs 50.00 crore in FY2021. This improvement in networth is mainly due to the retention of profit during FY2022 (Prov.). Acuité has considered Rs.16.82 crore of unsecured loan as quasi capital, as the same amount is subordinated to bank debt. The gearing of the group stood at 0.52 times as on March 31, 2022 (Prov.) when compared to 0.45 times as on March 31, 2021. Interest coverage ratio (ICR) is strong and stood at 4.21 times in FY2022 (Prov.) as against 3.16 times in FY2021. The debt service coverage ratio (DSCR) of the group also stood comfortable at 2.63 times in FY2022 (Prov.) as compared to 1.89 times in the previous year. The net cash accruals to total debt (NCA/TD) stood healthy at 0.40 times in FY2022 (Prov.) as compared to 0.35 times in the previous year. Going forward, Acuité

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 over the near term.

Weaknesses

Working capital intensive nature of operation –

The working capital management of the group is marked by high gross current asset (GCA) days of 123 days in FY2022 (Prov.) as compared to 150 days in the previous year. The inventory days of the group stood comfortable at 17 days in FY2022 (Prov.) as compared to 41 days in the previous year. The debtor days of the group also stood comfortable at 39 days in FY2022 (Prov.) as compared to 51 days in the previous year. However, this high GCA days mainly emanates from the high other current asset in FY2022 (Prov.), which mainly consisting of loans and advances to related parties, advance tax paid, advance for raw materials, GST receivables and among others. Acuité believes any further elongation in working capital would be a key rating sensitivity factor.

Significant non-core investments adversely impact the liquidity profile and increase dependence on external debt –

The group has sizeable non-core investments in group entities and other corporates of Rs. 32.02 crore as on 31st March 2022 (Prov.) as against of Rs.14.63 crore in the previous year. The group has been regularly investing in group companies yielding negligible return and increasing reliance on external debt. Going forward, any incremental investments leading to increased short term debt would be monitored by Acuite and hence Debt/Adjusted Networth beyond unity could have a downward bias in the rating.

Rating Sensitivities

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

Liquidity Position Adequate

The group has adequate liquidity position marked by comfortable net cash accruals of Rs.12.68 crore as against Rs.2.38 long term debt obligations in FY2022. The cash accruals of the group are estimated to remain in the range of around Rs. 12.15 crore to Rs. 13.77 crore during 2023-24 as against of Rs.2.38 crore in FY2023 and in FY2024 long term debt obligations respectively. The bank limit of the group has been ~84 percent utilized during the last six months ended September 2022. The current ratio of the group stood healthy at 2.15 times in FY2022 (Prov.). The Gross Current Asset (GCA) days of the group stood high at 123 days in FY2022 (Prov.). Further, the group has sizeable non-core investments in group related entities amounting to Rs.32.02 crore as on 31st March 2022 (Prov.) have adversely impacted the liquidity profile of the group, in turn leading to a greater reliance on external debts. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of comfortable cash accruals against the long debt repayments over the medium term.

Outlook: Stable

Acuité believes that group will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience and strong association with clientele. 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	167.86	116.17
PAT	Rs. Cr.	11.33	4.97
PAT Margin	(%)	6.75	4.28
Total Debt/Tangible Net Worth	Times	0.52	0.45
PBDIT/Interest	Times	4.21	3.16

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

CRISIL, vide its press release dated February 17, 2022 had denoted the rating of Krishna Speciality Chemicals Private Limited as 'CRISIL B+/Stable/A4' ISSUER NOT COOPERATING.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
07 Sep 2021	Letter of Credit	Short Term	4.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ Reaffirmed

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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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