Press Release

Kandui Industries Pvt Ltd.

October 22, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	76.83 (Increased from 59.61)	IVR BBB/ Stable (IVR Triple B Stable outlook)	IVR BBB/ Stable (IVR Triple B Stable outlook)	Reaffirmed	Simple
Short Term Facilities	6.80 (Decreased from 24.25)	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**83.63**	**(Rupees eighty-three crore and sixty-three lakh only)**			

Details of Facilities are in Annexure 1

Facility wise lender details are at Annexure 2.

Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics ratings has reaffirmed the rating assigned to the bank facilities of Kandui Industries Pvt. Ltd. (KIPL) which derives strength from its experienced promoters and geographical diversification. The ratings further derive strength from its moderate scale of operations, comfortable capital structure, debt coverage indicators and adequate liquidity profile. The rating, however, continue to remain constrained on account of inherent project execution risks associated with the ongoing capacity expansion project and working capital intensive nature of operations. Timely commissioning of the expansion project and stabilization of operations, without any significant cost & time overruns, will be key monitorable. The rating further continues to remain constrained on account of susceptibility to fluctuations in raw material prices and presence in highly competitive and fragmented plastic industry.

Outlook: Stable

Stable outlook reflects Infomerics expectations that the company will continue to benefit from the experience of its promoters and reflects that the company will maintain a stable operating performance and ensure adequate cash flow generation to comfortably meet its debt obligations.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained improvement in revenue and profitability margins while maintaining the debt protection metrics may lead to a positive rating action.

Downward Factors

- Any decline in scale of operations and/or moderation in profitability leading to decline in the debt protection metrics
- Withdrawal of subordinated-unsubordinated loans/any unplanned capex impacting the capital structure
- Significant delay in commissioning of the capacity expansion plant resulting in higher-than-expected time or cost overrun/

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established track record of operations with a team of experienced promoters

KIPL is led by Mr. Ashwinkumar Poonamchand Agarwal (Managing Director of the company) and his team of directors and managers who have a relevant industry experience of 20 plus years. KIPL has established track record of more than 12 years in plastic and polymer industry as manufacturer of masterbatches. The promoters have a good understanding of business dynamics and are able to identify price trends and maintain quality. This is well reflected in the steady operating margin and strong relationships with reputed clientele across sectors.

Moderate scale of operation with improvement in Profitability.

KIPL have reported de-growth of ~2% in its scale of operation marked by TOI of Rs. 286.86 Cr in FY'24 (A) as against TOI of Rs. 292.13 Cr in FY'23 (A) due to lower average realization. The capacity utilization of KIPL remains at 75.90% in FY'24 as against ~71% in FY'23. The profitability marked by EBITDA reflects improvement and stands at Rs. 16.91 Cr (5.90%) in FY'24 as against Rs. 14.03 Cr (4.80%) in FY'23 owing to decline in input cost majorly led by raw material consumption cost in proportion to total operating income. Till July 24, KIPL reported TOI of Rs. 83.24 Cr with EBITDA of Rs. 6.57 Cr reflecting EBITDA margin of 7.89%.

Improvement in Capital Structure and Comfortable debt coverage indicators as of March 2024.

KIPL's capital structure has improved in FY24, with an overall gearing ratio of 0.65x as of March 31, 2024, down from 0.97x on March 31, 2023. This positive shift is attributed to an increase in the tangible net worth and reduced working capital limit utilization as on balance sheet date. The adjusted tangible net worth as of March 31, 2024, stands at Rs.63.65 crore, up from Rs.56.08 crore a year earlier. KIPL's total outside liabilities to tangible net worth (TOL/TNW), including quasi-equity, decreased to 1.02x as of March 31, 2024, compared to 1.41x on March 31, 2023, largely due to the repayment of approximately Rs.11 crore of unsecured loans.

The company's debt coverage indicators have also shown improvement, with an interest coverage ratio of 4.62x and a debt service coverage ratio (DSCR) of 4.06x for FY24, compared to 3.05x and 2.14x for FY23, respectively. This improvement is primarily driven by an increase in profitability, attributed to a decrease in input costs.

Geographical diversification

The strategic location of KIPL's manufacturing plant in Daman enables the company to serve both domestic and export markets effectively, enhancing its presence across

India. In FY24, KIPL's exports accounted for approximately 7% of its revenue. The key export destinations include Africa, Kenya, Uganda, and Dubai. As the company derives the majority of its revenue from the domestic market it reduces the company's risk associated with geo-political tensions and currency fluctuation.

Key Rating Weaknesses

Time & cost overruns risk associated with on-going capacity expansion project.

KIPL has planned CAPEX to increase its installed capacity from 60000 MT/Annum to 79200 MT/annum. The facility to be located near its existing location in Daman. The company's aim is to produce value addition in their current products for which the company have planned to complete the project in 2 phases. KIPL has already completed its 1st phase as per envisaged timeline and trial run is underway. The company envisages the commercial operations of 1st phase to start from Nov-Dec and will be able to generate additional capacity of 12000 MT/annum from its 1st phase. In the 2nd Phase the company has planned to add few additional machineries which will be able to generate additional capacity of 7200 MT/annum. The planned CAPEX will enhance quality and production capacity of KIPL.

Working capital intensive nature of operations

The company operates in a working capital-intensive nature of business wherein inventory management is crucial. The operating cycle of the company stood similar at 89 days in FY24, as against previous year which was majorly on account of higher inventory days. Further, the company is required to maintain adequate inventory of its products to meet the immediate demand of its customers resulting the last 3 years average inventory period of around 50 days ending FY24 (49 days in FY23). The average utilization of working capital limits remained moderate at around ~42% utilized for the last 12- month's period ending July, 2024.

Exposure to intense competition & Susceptibility to fluctuations in raw material price

Polymers, titanium dioxide, and calcium carbonate are the primary raw materials in masterbatch processing. Polymers account for approximately 50% of manufacturing costs, serving as the medium for colour pigment application. As derivatives of crude oil, their prices are highly unpredictable and closely tied to fluctuations in crude oil prices. Consequently, the costs of key raw materials, including polymers and titanium dioxide, are inherently volatile.

More than half of the overall masterbatches segment comprises the unorganised sector. Although organised players such as the Kandui Industries offer superior quality products, local players are able to cater to regional customers with ease. In addition, profitability is contingent upon product mix. Intense competition may continue to constrain scalability, pricing power and profitability.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria for assigning Rating outlook
Policy on Default Recognition
Complexity Level of Rated Instruments / Facilities

Liquidity – Adequate

The liquidity position of the company is adequate on account of the fact that the expected gross cash accruals of the company is having sufficient cushion relative to its debt-servicing obligations during FY25-FY27. Further, company has reported current ratio at 2.16x as on March 31, 2024. KIPL's average working capital utilization for twelve months ended July 2024 stands satisfactory at ~42%. KIPL has cash and bank balance of Rs. 1.66 crore as on March 31st, 2024.

About the Company

Incorporated in 2010, Mulund (Mumbai) based Kandui Industries Private Limited (KIPL) is engaged in manufacturing of masterbatches which find its application predominantly in plastic and packaging industries. Initially set up with an installed capacity of 2,500 tones per annum at a manufacturing unit in Daman, the company was able to scale up its capacity to 60,000 tonnes per annum over a period of 15 years, presently utilizing over ~70% of its installed capacity.

Financials (Standalone):

INR in Crore

For the year ended/ As on*	31-03-2023 (Audited)	31-03-2024 (Audited)
Total Operating Income	292.13	286.86
EBITDA	14.03	16.91
PAT	4.07	6.98
Total Debt	52.38	38.52
Tangible Net Worth	56.08	63.65
EBITDA Margin (%)	4.80	5.90
PAT Margin (%)	1.39	2.43
Overall Gearing Ratio (x)	0.97	0.65
Interest Coverage (x)	3.05	4.62

** Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA:

India Ratings has continued the rating of KIPL under Issuer not-cooperating vide press release dated Dec 14, 2023, due to non-availability of minimum required information for review of the rating.

Any other information: NIL

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					04 Sep, 2023	04 July, 2022	-
1.	Long Term Bank Facilities	Long Term	76.83	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Stable	-
2.	Short Term Bank Facilities	Short Term	6.80	IVR A3+	IVR A3+	IVR A3+	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	Revolving	40.00	IVR BBB/ Stable
Term Loans	-	-	5 years	29.14	IVR BBB/ Stable
BGECL	-	-	-	7.69	IVR BBB/ Stable
BG	-	-	-	4.00	IVR A3+
Forward Cover	-	-		2.80	IVR A3+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-kandui-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated analysis: Not Applicable.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.