Press Release

Kandui Industries Private Limited (KIPL)
July 04, 2022

Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loan	7.92	IVR BBB /Stable (IVR Triple B with Stable Outlook)	Assigned	Simple
Long Term Fund Based Bank Facilities – Cash Credit	25.00		Assigned	Simple
Short Term Fund Based Facilities – Foreign Bills Purchased	4.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Short Term Non Fund Based Facilities – Letter of Credit	12.00		Assigned	Simple
Total	**48.92**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings assigned to bank facilities of Kandui Industries Private Limited derives strength from experienced promoters, improvement in overall financial risk profile during FY21 and FY22(Provisional) and geographical diversification. However, the rating strengths are partially offset by working capital intensive nature of operations, exposure to intense competition and susceptibility to fluctuations in raw material price.

Key Rating Sensitivities:

Upward Factors:

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

Downward Factors:

- Any deterioration in revenue and/or profitability margin leading to deterioration in debt protection metrics may lead to a negative rating action.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters

KIPL is led by Mr. Ashwinkumar Poonamchand Agarwal (managing director of the company) and his eminent team of Directors and Managers who have a minimum relevant industry experience of 20 plus years. KIPL has got good and 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.

Improvement in overall financial risk profile during FY21 and FY22(Provisional)

The company has reported improvement in overall financial risk profile during FY21 and FY22(P) characterized by growth in total operating income, profitability, capital structure and debt coverage indicators. The EBITDA margin of the company improved from 7.33% in FY20 to 7.98% in FY21 owing to proportionate decline in cost of raw material vis-à-vis increase in sales realization and change in product-mix from filler to masterbatches, which is a higher margin product. The increase in EBITDA margin supported the growth in PAT. During FY22(P) the total operating income of the company grew at rate of ~27% to INR. 277.61 crore from INR. 218.22 crore in FY21. The total debt of the company remained stable at around INR. ~34.67 crore as on March 31, 2022 from INR. 32.00 crore as on March 31, 2021. The increase in networth has led to the improvement in overall gearing at 0.63x as on March 31, 2022 (FY21:0.71x). Further, the debt coverage indicators of the company also improved with total debt/GCA and interest coverage of 2.74x (FY21: 2.78x) and 8.43x (FY21: 6.00x) respectively for FY22(P).

During FY22(P), company recorded EBITDA margin of 6.85% (FY21: 7.98%) and registered PAT margin of 3.00% (FY21: 2.72%).

Geographical diversification

The strategic location of the manufacturing plant in Daman, allows KIPL to cater to both domestic as well as export market. This grants KIPL easy access to the market, marking its presence PAN India. The company's presence in the exports market grew by ~12.87% during FY22(P), albeit on a low base. The major exporting countries of KIPL includes, Abidjan, Africa, Kenya etc. The geographic diversification of KIPL insulates the company against any economic downturn or any geo-political uncertainties of any particular region.

Key Rating Weaknesses:

Working capital intensive nature of operations

Operations are working capital intensive, as reflected in gross current assets of ~131 days, driven by receivables of 65 days, as on March 31, 2022(P) as the company extends credit period of around 2 months to its customers. The company maintains inventory of 1-2 months as indicated by inventory days of 49 days as on March 31, 2022(P). Going forward, operations are expected to remain working capital intensive.

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

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. The company generates a bulk of its revenue via sale of filler and black and white masterbatches. It sells a low proportion of high-end masterbatches, such as those used in the textile industry. Intense competition may continue to constrain scalability, pricing power and profitability.

Since the cost of procuring the major raw materials (polymers, additives and pigments) accounts for a bulk of the production expense, even a slight variation in price can drastically impact profitability. Operating margin have remained volatile over the last five years ended fiscal 2022. Despite comfortable profitability and the ability to pass on price hike to a certain extent, the company will remain vulnerable to any sharp volatility in raw material prices.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the company remains adequate as cash accruals are healthy to meet incremental working capital limits. Further, the company is expected to generate gross cash accruals of INR 14.30 Crore in FY23 against nil debt repayment. The overall average utilization of the fund-based and non-fund-based limits remains comfortable at 70.84% and 66.26% respectively during the last 12 months ended March 2022 providing additional liquidity cushion. KIPL's liquidity remains insulated from any occurrence of bad debts as the company has also entered into a credit insurance contract. The current ratio stood at 1.77 times as on 31st March 2022. Cash and Cash equivalent amounted to INR 3.44 Crore as on 31st March 2022.

About the Company:

Kandui Industries Private Limited (KIPL), based in Daman, was incorporated on February 03, 2010. Mr. Ashwinkumar Agarwal is the promoter of the company having experience of more than 15 years in production management. KIPL manufactures master batches that are used in the plastic and polyester industries for adding colour shades to the final product.

Financials:

(INR Crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	(Provisional)
Total Operating Income	218.22	277.61
EBITDA	17.42	19.01
PAT	5.94	8.34
Total Debt	32.00	34.67
Adjusted Tangible Net-worth	44.77	54.82
Ratios		
EBITDA Margin (%)	7.98	6.85
PAT Margin (%)	2.72	3.00
Overall Gearing Ratio (x)	0.71	0.63

Status of non-cooperation with previous CRA:

India ratings vide its press release dated 09th May 2022 migrated the rating to Issuer Not Co-operating category.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1	Long Term Fund based Bank Facilities – Term Loan	Long Term	7.92	IVR BBB / Stable	--	--	--
2	Long Term Fund based Bank Facilities – Cash Credit	Long Term	25.00	IVR BBB / Stable	--	--	--
3	Short Term Fund based Bank Facilities – Foreign Bills Purchased	Short Term	4.00	IVR A3+	--	--	--

4	Short Term Non Fund based Bank Facilities – Letter of Credit	Short Term	12.00	IVR A3+	--	--	--

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund based Bank Facilities – Term Loan	--	--	February 2027	7.92	IVR BBB / Stable
Long Term Fund based Bank Facilities – Cash Credit	--	--	--	25.00	IVR BBB / Stable
Short Term Fund based Bank Facilities – Foreign Bills Purchased	--	--	--	4.00	IVR A3+
Short Term Non-Fund based Bank Facilities – Letter of Credit	--	--	--	12.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Kandui-Industries-july22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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 https://www.infomerics.com/.