Press Release

Kanoria Energy and Infrastructure Limited

(Erstwhile A Infrastructure Limited)

January 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	113.89	IVR BBB-/Stable (IVR Triple B Minus with stable outlook)	IVR BBB/RWNI (IVR Triple B/ Rating Watch with Negative Implications)	Downgrade	Simple
Short Term Bank Facilities	30.00	IVR A3 (IVR A Three)	IVR A3+/RWNI (IVR A Three Plus/ Rating Watch with Negative Implications)	Downgrade	Simple
Total	**143.89**	**(Rupees One hundred and forty-three crore and eighty-nine lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kanoria Energy and Infrastructure Limited (KEIL) have been downgraded on account of risks emanating from predominantly debt funded large size capital expenditure being undertaken by the company. The company has proposed to set up 250 KLPD Ethanol production plant with a total project cost of Rs. 280.00 crore. The relatively large capex exposes the company to project execution risk. Timely execution and stabilisation with no cost overrun of the aforementioned capex will remain key monitorable going forward.

Further the reaffirmation of the rating assigned to the bank facilities of Kanoria Energy and Infrastructure Limited (KEIL) continues to draw comfort from its experienced promoters with established track record of operations in the AC building material and professional management and recognised regional brand backed by established agent/distribution network. Further, the company gains strength from improving scale of operations with moderate profitability along with moderate capital structure and debt coverage indicators. However, these rating strengths are partially offset by high concentration risk, vulnerability of margins to volatility in prices of key raw materials and foreign exchange rates and regulatory and environmental issue surrounding asbestos.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with established track record of operations in the AC building material and professional management

KEIL is managed by members of Kanoria family who have long experience in AC building material industry. KEIL has an established operational track record of more than three decades in the manufacturing of AC building material products. The directors are involved in the day-to-day operations of the company, handling respective functions, and are supported by a team of qualified and experienced professional management team.

Recognised regional brand backed by established agent/distribution network

KEIL's majority of sales are in the domestic market and it markets its pipes under the brand name of "KIRTI" and its sheets under the brand name of "JAI KIRTI" and "LOTAS" which are well-established in the market and are registered under the Trademark Act. The company has a network of 51 dealers and 272 distributors across different states.

Growing scale of operations with moderate profitability

The company has reported TOI at Rs. 315.68 crore in FY23 against Rs. 285.33 crore in FY22, grew by 10.64%. The EBITDA of the company stood at Rs. 26.56 crore in FY23 as against Rs. 18.94 crore in FY22. Further, the company reported EBITDA margin of 8.41% in FY23 improved by 178 bps from 6.64% in FY22 mainly on account of the decrease in manufacturing expenses during the year. Although improved EBITDA margin, the PAT margin of the company declined by 120 bps and stood at 3.02% in FY23 compared to 4.22% in FY22 due to an increase in finance cost. The PAT of the company stood at Rs. 9.55 crore in FY23 compared to Rs.12.39 crore in FY22. The GCA stood at Rs. 12.83 crore in FY23 compared to Rs.15.33 crore in FY22.

Moderate capital structure and debt coverage indicators

The capital structure of the company stood moderate with TNW of Rs. 82.34 crore as on March 31, 2023, improved from Rs. 73.34 crore as on March 31, 2022, due to accretion of profits to reserves. The overall gearing of the company stood moderate at 1.30x as on March 31,2023 deteriorated from 1.12x as on March 31, 2022, mainly on account of higher utilization of working capital bank borrowing. The TOL/TNW stood moderate at 2.20x as on March 31, 2023, as compared to 2.07x as on March 31, 2022, on account of increase in debt. The debt protection metrics of the company stood moderate with ICR of 2.57x in FY23 compared to 2.58x in FY22. The total debt to GCA stood at 8.37x as on March 31,2023 compared to 5.36x as on March 31, 2022. The DSCR of the company stood at 1.43x in FY23 as compared to 2.09x in FY22.

Key Rating Weaknesses

Predominantly debt funded large size capital expenditure.

The company has undertaken a project for setting up a pollution free (Zero discharge) Distillery Complex in the State of Madhya Pradesh with a installed capacity of 250 KLPD Grain Based Ethanol with 7MW of cogen plant in village Hargarh Tehsil Sihora, District- Jabalpur, Madhya Pradesh. The company has acquired the required land for the project and plant will be established at Plot no.17Sector PHASE-II, Plot no.18 Sector PHASE-II, Plot no.19 Sector PHASE-II, and Plot no.20 Sector PHASE-II at Hargarh, District Jabalpur in MP with a total area of 25.05 acres. The estimated cost of the project is Rs. 280 crores which will be funded through a term loan of Rs. 224.00 crore, preference shares of approx. Rs. 30.00 crore and remaining Rs. 26.00 crore through internal accrual. Till date the company has acquired 25.05 acres of land. The expected date of completion of project is September- December 2025.

Vulnerability of margins to volatility in prices of key raw materials and foreign exchange rates

The key raw materials for AC sheets and AC pipes are asbestos fibre, Portland cement, fly-ash, lime, and aluminium, of which asbestos fibre comprises major portion of the total cost. The prices of select raw materials are volatile in nature, exposing the company's profitability to any adverse price variation. Furthermore, while the entire requirement of asbestos fibre is imported from countries such as Russia, Brazil, Kazakhstan, cement is procured from domestic manufacturers and fly-ash is obtained from nearby thermal power plants. The company imported raw material, stores and spares and plant and machinery amounting to Rs. 90.51 crore in FY22. The company does not hedge its foreign currency exposure and hence is exposed to foreign currency fluctuation risk with respect to the unhedged portion.

High Concentration Risk

Company is exposed to high supplier concentration risk with top 5 suppliers comprising around 83.45% of total purchases in FY22, which shows high suppliers concentration risk. Further, the company is also exposed to geographical risk as major sales are done in 3 major states mainly Rajasthan, Gujarat, and Uttar Pradesh.

Regulatory and environmental issue surrounding asbestos

The mining of asbestos and use of asbestos related products have been banned in most of the developed countries. While mining of asbestos is banned in India, the use of asbestos is permitted in related products, though it has been a matter of litigation in the past with the court's ruling in favour of the industry. However, due to ban on mining of asbestos, Indian companies are hugely dependent on import of asbestos fiber from countries like Russia, Brazil, Canada & Kazakhstan etc. Any regulations against the mining or trading of asbestos in the current major exporting nations can impact operations of the Indian players.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

KEIL's liquidity is adequate as it expects sufficient cushion in cash accruals vis-à-vis its debt repayment obligations in the next 3 years. The average utilisation of fund-based bank limits utilisation for last 12 months ended March 2023 was 80.24%. The current ratio of the company was 1.44x and quick ratio stood at 0.59x as on March 31, 2022. The unencumbered cash and bank balance as on March 31, 2022, and March 31,2023 stood at Rs 1.08 crore and Rs. 0.59 crore respectively. The operating cycle of the company stood elongated at 95 days in FY22 due to high inventory days.

About the Company

Kanoria Energy and Infrastructure Limited (KEIL), erstwhile A Infrastructure Ltd., was incorporated in 1980 as public limited company in the name of Shree Pipes Limited.

KEIL initially started its operations with manufacturing of AC pressure pipes. Later in 2006, the company also started with manufacturing of AC sheets. The company owns three manufacturing plant at Hamirgarh, Bhilwara with installed capacity of 43200 MT/annum and 22800 MT/annum for manufacturing of Mazza AC pipes and fittings. In addition to this, company owns one more manufacturing plant at Bhilwara with installed capacity of 150000 MT/annum for A.C. Roofing Sheets and Accessories. Further the company has leased one manufacturing plant at Ahmedabad (leased facility) with aggregate installed capacity of 66000 MT/annum for Asbestos Cement A.C. Corrugated Roofing Sheets and Accessories. The company markets its pipes under the brand name of “KIRTI” and its sheets under the brand name of “JAI KIRTI” and “LOTAS”. The company has recently on April 19, 2023 has changed its name from A Infrastructure Limited to Kanoria Energy & Infrastructure Limited.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	285.33	315.68
EBITDA	18.94	26.56
PAT	12.39	9.55
Total Debt	82.12	107.38
Tangible Net Worth	73.34	82.34
Ratios		
EBITDA Margin (%)	6.64	8.41
PAT Margin (%)	4.22	3.02
Overall Gearing Ratio (x)	1.12	1.30

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: Vide press release dated Nov 23, 2023, Brickwork Ratings have kept the ratings under non-cooperation category on account of non-submission of relevant information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding. (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Dec 08, 2023	Date(s) & Rating(s) assigned in 2022-23(May 24, 2023)	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities	Long Term	113.89	IVR BBB-/Stable	IVR BBB/ RWNI	IVR BBB/ Stable	--
3.	Short Term Fund Based Facilities	Short Term	30.00	IVR A3	IVR A3+/RWNI	IVR A3+	--

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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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
Term Loan	-	-	Dec'28	38.89	IVR BBB-/Stable
Cash Credit	-	-	-	75.00	IVR BBB-/Stable
Letter of Credit	-	-	-	20.00	IVR A3
Bank Guarantee	-	-	-	10.00	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-Kanoria-Energy-jan24.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 www.infomerics.com.