



Press Release

Kanoria Energy and Infrastructure Limited **(Erstwhile A Infrastructure Limited)**

December 08, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	113.89	IVR BBB/RWNI (IVR Triple B/ Rating Watch with Negative Implications)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed and placed under Rating Watch with Negative implications	Simple
Short Term Bank Facilities	30.00	IVR A3+/RWNI (IVR A Three Plus/ Rating Watch with Negative Implications)	IVR A3+ (IVR A Three Plus)	Reaffirmed and placed under Rating Watch with Negative implications	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 placed under 'rating watch with negative implications' 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 to the tune of Rs 300 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



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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



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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 a Total Operating Income of Rs. 285.33 crore in FY22 which increased by 6.60% from Rs.267.65 crore in FY21 on account of increase in sales volume of its key products. The EBITDA declined from Rs 19.36 crore in FY21 to Rs. 18.94 crore in FY22. Further the EBITDA margin declined to 6.64% in FY22 against 7.23% in FY21 mainly on account of increase in bad debts in FY22 from Rs. 3.97 crore in FY21 to Rs. 7.23 crore in FY22. Despite decline in EBITDA margin, the PAT margin improved by 191 bps to 4.22% in FY22 against 2.31% in FY21. In FY22. The PAT of the company increased to Rs. 12.39 crore in FY22 against Rs.6.21 crore in FY21; improved mainly on account of gain on sale of property amounting to Rs. 6.97 crore in FY22. The GCA was Rs. 15.33 crore in FY22; improved from Rs 8.82 crore in FY21. The company has reported PAT of Rs. 9.54 crore on total operating income of Rs. 313.29 crore in FY23 as against PAT of Rs. 12.39 crore on total operating income of Rs. 285.32 crore in FY22.

Moderate capital structure and debt coverage indicators

The capital structure of the company stood moderate with TNW of Rs 73.34 crore as on March 31, 2022 improved from Rs.61.63 crore as on March 31, 2021 due to accretion of profits to reserves. The overall gearing of the company stood moderate at 1.12x as on March 31, 2022; improved from 1.19x as on March 31, 2021, due to increase in TNW. The TOL/TNW stood at 2.07x as on March 31, 2022, improved from 2.44x as on March 31, 2021, on account of reduction in current liabilities. The debt protection metrics of the company stood moderate with ICR of 3.36x in FY22 improved from 2.68x in FY21 due to decline in finance cost. The total debt to GCA stood at 5.36x



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as on March 31,2022; improved from 8.33x as on March 31,2021 due to increase in GCA.

Key Rating Weaknesses

Predominantly debt funded large size capital expenditure.

The company has proposed to set up 250 KLPD Ethanol production plant at Hargarh, Jabalpur, Madhya Pradesh to the tune of Rs 300 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.

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.



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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



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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):

For the year ended* / as on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	267.65	285.33
EBITDA	19.36	18.94
PAT	6.20	12.39
Total Debt	73.42	82.12
Tangible Net Worth	61.63	73.34
Ratios		
EBITDA Margin (%)	7.23	6.64
PAT Margin (%)	2.31	4.22
Overall Gearing Ratio (x)	1.19	1.12

**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:



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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 (May 24, 2023)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities	Long Term	113.89	IVR BBB/ RWNi	IVR BBB/ Stable	--	--
3.	Short Term Fund Based Facilities	Short Term	30.00	IVR A3+/R WNI	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.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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/RWNI
Cash Credit	-	-	-	75.00	IVR BBB/RWNI
Letter of Credit	-	-	-	20.00	IVR A3+/RWNI
Bank Guarantee	-	-	-	10.00	IVR A3+/RWNI

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-dec23.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.