Press Release

Krishna Speciality Chemicals Private Limited (KSCPL)

October 03, 2023

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long Term Bank Facility	10.00	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Total	**10.00 (Rupees ten crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facilities of Krishna Speciality Chemicals Private Limited (KSCPL) continues to derives comfort from the proven track record of the company under experienced promoters, established market position with diversified and reputed clientele, presence of entry barrier in the industry due to high R&D cost and improvement in scale of operation with improvement in profit margins in FY2. The rating also notes KSCPL’s comfortable capital structure and healthy debt protection metrics. These rating strengths are partially offset by its moderate scale of operation, working capital intensive nature of operation, sectoral concentration in revenue and exposure to stringent regulatory norms.

Key Rating Sensitivities:

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to improvement in cash accruals on a sustained basis.
- Continued improvement in debt-coverage indicators and working capital cycle.

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators with moderation in the interest coverage ratio.
- Moderation in the capital structure with deterioration in overall gearing to over 1.5x.
- Elongated operating cycle leading to moderation in the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter and proven track record of the company**

The directors are widely experienced in the Chemical industry and the company has nearly two decades operational track record. Mr. Arjun Lal Agarwal, Chemical Engineer by profession is having more than four decades of experience of in this field. With such huge knowledge, he heads all major R&D activities of KSCPL and, is at the helm of affairs of the company with support from other directors Mr. Sanjay Agarwal, Mr. Sandeep Agarwal, and Mr. Aditya Agarwal and a team of experienced professionals.

- **Established market position with diversified and reputed clientele**

The company has an established market position as it and sales its chemical solutions on a PAN India as well as in international basis to multiple clients. The group caters to reputed clientele mostly from the cement industry such as, ACC Limited, JK Lakshmi Cement Ltd, Abuja Cement Limited, Ultratech Cement Limited, NU Vista Limited among others who uses speciality chemicals to improve the productivity of the cement. The company also supplies chemicals to Paradeep Phosphates Limited and started supplying wall putty and paint to JK Lakshmi Cement Limited.

- **Presence of entry barrier**

The industry has entry barrier due to its high R&D requirements. Further, the overall market size is also limited due to niche nature of its products.

- **Improvement in scale of operation coupled with improvement in profit margins**

The total operating income improved by ~15% in FY23 (provisional to Rs.128.75 crore as compared to Rs.113.13 crore in FY22 driven by increase in demand for speciality chemicals. Driven by steady increase in revenue the profit levels of the company have also improved. Both absolute EBIDTA and PAT improved from Rs.8.41 crore and Rs.4.89 crore respectively in FY22 to Rs.16.75 crore and Rs.13.78 crore respectively in FY23 (Prov.). EBITDA margin and PAT margin have also improved and remained satisfactory at 13.01% and 10.42% respectively in FY23 (provisional). Till September 22,2022 the company has achieved a revenue of ~Rs.86 crore.

- **Comfortable capital structure and healthy debt protection metrics**

The capital structure of the company remained satisfactory as on the past three account closing dates. Further, the leverage ratios witnessed continuous improvement over the aforesaid period driven by accretion of profit to reserve and gradual repayment of term loans with lower utilization in Cash Credit account. The net worth base (ATNW) of the company remained moderate at Rs.56.49 crore (considering subordinated unsecured loan amounting to Rs.9.24 crore as quasi equity). The overall gearing stood comfortable at 0.38x as on March 31, 2023 (provisional) as against 0.50x as on March 31, 2022. Total indebtedness of the company marked by TOL/ATNW has also improved and stood comfortable at 0.61x as on March 31, 2023 (prov.). Driven by significant improvement in EBITDA, in FY23 (Provisional), the debt protection metrics of the company has improved and remained satisfactory with interest coverage ratio at 5.53x in FY23 (3.53x in FY22) and Total debt to GCA at 1.40 years as on March 31, 2023, (3.35 years as on March 31, 2022).

B. Key Rating Weaknesses:

- **Working capital intensive nature of operations, although improving**

The operations of the company continue to remain working capital intensive. The average operating cycle moderated to 70 days in FY23 from 59 days in FY22 mainly driven by rise in average collection period to 61 days in FY23(P) in comparison with 41 days in FY22.

- **Presence in fragmented industry**

KSCPL operates in a very fragmented industry wherein there are a variety of small and medium-sized companies that specialise in biocide manufacturing and speciality chemicals. With 100% FDI, there are a variety of foreign investors who have been keenly looking into the industry; chemical giants such as BASF – SE, Mitsubishi chemical, DuPont and others have been very interested in investing in the Indian market given the low production costs.

- **Exposure to stringent regulatory norms**

KSCPL operates in an industry that poses high risks to environment and health. Consequently, the industry is regulated by stringent norms by regulatory bodies. The company continues to comply with such norms; however, any changes in the policies may adversely constrain the business.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

KSCPL has earned a gross cash accrual of Rs.15.28 crore in FY23 (Prov.). The company is expected to earn a gross cash accrual in the range of Rs.18.58-24.39 crore during FY24-FY26 which would be sufficient to meet its debt repayment obligations of Rs.3.00 crore during FY24-FY26. Further, the average cash credit utilisation of KSCPL remained comfortable at ~43% during the past 11 months ended August 2023 indicating a sufficient limited cushion. Moreover, the company has adequate gearing headroom backed by its satisfactory capital structure.

About the Company

Krishna Speciality Chemical Private Limited (KSCPL) was incorporated in Bilaspur, Chhattisgarh by Mr. Arjun Lal Agarwal, Mr. Sanjay Agarwal, Mr. Sandeep Agarwal, and Mr. Aditya Agarwal in February 2003. KSCPL is engaged in manufacturing of speciality chemicals which are used in cement industry, fertilizer industry, paper industry and explosive and aluminum Industry. The company was initially formed with an in-built capacity of 5000 MTPA. Later, capacity enhanced to 14,000 MTPA and then to 20,000 MTPA. Its manufacturing facilities located at Vidhya Nagar, in Bilaspur District in Chhattisgarh. The day-to-day affairs of KSCPL are looked after by Mr. Arun Lal Agarwal, the managing director of the company along with other four directors and a team of experience personnel.

Financials - Standalone **(Rs. crore)**

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	113.13	128.75
EBITDA	8.41	16.75
PAT	4.89	13.78
Total Debt	21.12	21.45
Tangible Net worth	42.54	56.49
EBITDA Margin (%)	7.43	13.01
PAT Margin (%)	4.25	10.42
Overall Gearing Ratio (x)	0.50	0.38

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL Ratings has moved the rating of KSCPL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated April 26, 2023.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long Term	10.00	IVR BBB+; Stable	IVR BBB+; Stable July 13, 2022	-	-

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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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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
Long Term Bank Facility – Cash Credit	-	-	-	10.00	IVR BBB+; Stable

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

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-KSCPL-oct23.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.