Kriti Nutrients Limited

August 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	10.00 (Reduced from 32.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

Rationale & Key rating drivers

Ratings assigned to bank facilities of Kriti Nutrients Limited (KNL) continue to derive strength from its experienced promoters and established track record of operations in edible oil industry, diversified product portfolio with strong presence in branded refined oil segment and established marketing network in central India. Ratings also derive strength from its moderate scale of operations, improvement in profitability, strong capital structure and debt coverage indicators, and adequate liquidity.

However, ratings continue to remain constrained considering its presence in a competitive edible oil industry, geographically concentrated operations, seasonality associated with availability of soya seeds and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuations. Ratings also factor in loans & advances given and further support expected to be extended to its group company. The short term bank facilities stands withdrawn as the same has been fully repaid.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Significant volume driven growth in scale of operation through greater geographical and product diversification resulting in total operating income (TOI) above ₹1000 crore, while maintaining its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 8% on a sustained basis.

Negative Factors

- Volume driven decline in scale of operations with PBILDT margin below 3% on sustained basis.
- Increase in adjusted overall gearing above unity or any significant increase in loans and advances/ investments in group companies such that it exceeds 50% of net worth base.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that KNL is likely to sustain its comfortable financial risk profile in the medium term, considering its established presence in central India in branded refined oil segment.

Detailed description of key rating drivers

Key Strengths

Experienced promoters and reputed board members

The company's promoter, Shiv Singh Mehta looks after overall operations of KNL as Chairman and Managing Director. He is a qualified engineer and holds master's degree in business administration with an experience of over two decades in oil seed extraction and oil refining business. Shiv Singh Mehta is assisted by his son Saurabh Singh Mehta, Whole-time Director and wife Purnima Mehta (Non-Executive) in KNL's operations. KNL has established organisational structure headed by qualified second-tier management team looking after different aspects.

KNL's board includes independent directors, viz. Mr. Chandrasekharan Bhaskar (MD of Xpro India Limited), Mr. Ashutosh Khajuria (ex-CFO of Federal Bank Limited), Mr. Dilip Singh Gaur (having 17+ years of experience with Aditya Birla Group in different roles preceded by 24 years at Unilever India in Foods, Home & Personal Care and Specialty Chemicals Business and was a member of the Foods Management Committee) and Dr. Tulsi Jayakumar (Professor of Finance & Economics and Executive Director, Centre for Family Business & Entrepreneurship at Bhavan's S.P. Jain Institute of Management & Research (SPJIMR), Mumbai). Its group company Kriti Industries (India) Limited (KIL; rated CARE BBB+; Stable / CARE A2) is engaged in manufacturing of plastic pipes, ducts and mouldings at its manufacturing facility in Madhya Pradesh.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Diversified product portfolio and strong presence in branded refined oil segment albeit concentrated geographical presence

KNL has diversified product portfolio, which includes refined oil (of which 95% is from soyabean refined oil), soya meal, lecithin, and other soya-based products (soya chhilka, soya acid oil, Soya HI-pro).

In FY24, KNL derived ~83% (FY23: 78%) of its net sales from refined oil, 15% from soya meal (FY23: 20%) and remaining 2% from other products (FY23: 2%). The company has ventured in new product, protein-based snacks in its value-added product basket and discontinued soya flakes, soya grits from FY24, on account of overall lower demand in export market and price volatility. The company's crushing unit's capacity utilisation stood less than 10% in the past three years ended March 31, 2024.

KNL has an established track record of over two decades in solvent extraction and edible oil refining business. KNL has a network of over 200 dealers and the company's products are available across 20,000 retail outlets, with major focus in central India. Its refined oil sales (in volume terms) grew by ~20% in FY24 as compared to FY23. KNL's edible oil brand 'Kriti' is well known in central India's retail market (particularly Madhya Pradesh), due to which its refined oil is entirely sold in retail premium segment with no bulk sales. The company is focusing on growing its presence in Maharashtra, Rajasthan and Uttar Pradesh.

Moderate scale of operations and improvement in profitability

The company achieved 20% y-o-y overall volume growth in its refined oil segment in FY24, however due to decline in sales realisation, TOI moderated to ₹685.42 crore in FY24 as compared to ₹798.50 crore in FY23. The company discontinued some of its value-added products (soya flakes, soya grits and soya floor) with increasing global competition reducing viability of these products. Exports contributed ~10% of its TOI in FY24 as compared to 13% in FY23.

KNL reported healthy PBILDT margin of 9.25% in FY24 as compared to 4.11% in FY23, considering increase in proportion of branded refined oil segment with better spread and absence of low margin crushing operations. Volume growth and better margin was supported by varied reasons such as brand building through strategies and campaigns, cost optimisation and process automation and achieving better pricing in the market in declining trend of edible oil prices. Profit after taxation (PAT) margin improved, considering the increase in PBILDT level in FY24. Overall gross cash accrual (GCA) increased significantly to ₹49.71 crore in FY24 as compared to ₹24.94 crore in FY23.

Strong capital structure and debt coverage indicators

KNL's capital structure remained strong, considering low debt level and steady accretion of the company's profit to the net-worth base. As on March 31, 2024, overall gearing stood at 0.07x as against 0.31x as on March 31, 2023, with nil term debt and reduction in working capital borrowings. Debt coverage indicators remained strong in FY24 marked by total debt to gross cash accruals (TD/GCA) and PBILDT interest coverage ratio of 0.24x and 45.62x, respectively. Same is expected to continue in medium terms with no major debt funded capex plans and healthy profitability.

KNL extended loans and advances to its group company (KIL) which stood at ₹24.35 crore as on March 31, 2024, as compared to ₹24.97 crore as on March 31, 2023. Loans and advances formed ~14% of KNL's total net-worth as on March 31, 2024. In June 2024, KNL subscribed to warrants issued by KIL amounting to ₹49.40 crore; th amount is to be paid within 18 months per the terms of the issue.

Key Weaknesses

Competitive industry landscape

Edible oil industry is highly competitive with presence of large national players and multiple regional players. Along with logistics and supply chain capability, large integrated players have a sizeable oil processing and packaging scale with wide distribution network. Thus, profitability remains low and is further exposed to movement in raw material prices, finished goods and other substitute. Being part of a highly fragmented industry (refined oil and soyameal), KNL faces intense pricing competition, however KNL buys crude soya oil directly from domestic manufacturers and import traders (located domestically) and maintains low inventory levels, which helps the company to pass on price volatility to its customers. This helped to achieve high operating margins in FY24 as compared to other large players in declining trend of edible oil prices.

With increase in brand awareness, health consciousness and penetration of organised retail, the size of the branded edible oil industry is likely to increase, which bodes well for branded refined oil players.

Seasonal availability of raw material and risk related to agriculture commodity risk and government regulation

Crude soya oil and soya bean seeds are KNL's main raw materials. Soyabean seeds are purchased locally from farmers and local mandis, whereas it purchases crude soyabean oil in bulk from importers. Soya bean seed is generally available from the onset of harvesting season, from October till January and is procured locally from mandis in Madhya Pradesh whose prices remain volatile,

which depends upon the rainfall, area under cultivation, international demand-supply and government policy minimum support price (MSP). Soyabean's MSP for khariff 2024-25 was increased from ₹4,600 per quintal to ₹4,892 per quintal.
Prices also reflect the international demand-supply gap and weather conditions in major soya-growing nations such as USA, Brazil, China, India and Argentina. Crude edible oil prices are also influenced by cost of import, and regulatory policy (import/export duty) and price differential among other edible oil alternatives.

Exposure to raw material price volatility, forex rates and regulatory changes despite sound risk management practices followed by management
Prices of KNL's main raw material, crude soya oil remained volatile. Such sudden movement in the price affects KNL's profitability. KNL derives ~10-20% of its revenue from exports, whereas the import is negligible. Hence, KNL is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates. However, the company enters forward contracts for hedging foreign exchange exposure against its exports per market situation. In FY24, KNL did not have exposure hedged through commodity derivatives. However, over the years, the management has practiced sound inventory management policy with low inventory levels.

Liquidity: Adequate
KNL's adequate liquidity is supported by healthy cash accruals with absence of scheduled term debt repayment obligations. Average fund based working capital utilisation remained low at 22% for 12-months ended April 2024. Current ratio and quick ratio stood at 4.20x and 2.36x, respectively as on March 31, 2024. KNL reported healthy cash flow from operation of ₹48.46 crore in FY24 as against ₹24.03 crore in FY23. KNL's operating cycle remained lean at 38 days in FY24 (30 days in FY23) due to low collection period driven by retail sales and limited inventory holding to insulate the company from major adverse price fluctuations. KNL had free cash and bank balance (including liquid investments) of ₹32.10 crore as on March 31, 2024, as against ₹19.34 crore as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry
Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and other products	Edible oil

Promoted by Shiv Singh Mehta, KNL (CIN: L24132MP1996PLC011245) is primarily engaged in manufacturing refined soya edible oil and soya bean-based value-added products. KNL's main products include branded refined soya oil, soya meal, and soya lecithin. KNL sells its refined edible oil under the brand 'Kriti', which is an established name in central India. KNL's manufacturing facilities are at Dewas, Madhya Pradesh (MP) with a solvent extraction capacity of 360,000 metric tonne per annum (MTPA) and oil refining capacity of 60,000 MTPA as on March 31, 2024. KNL was de-merged in January 2010 from Kriti Industries (India) Limited (KIL). KIL had two divisions before the demerger, edible oil and solvent extraction, plastic fittings and engineered auto components. Plastic fittings & engineered auto components division continues to remain with KIL.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	798.50	685.42
PBILDT	32.82	63.42
PAT	20.80	45.29
Overall gearing (times)	0.31	0.07
Interest coverage (times)	9.29	45.62

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure 1: Details of Instrument/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	10.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	0.00	Withdrawn

Annexure 2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	10.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (11-Jul-23)	1)CARE A-; Stable / CARE A2+ (16-Sep-22)	1)CARE A-; Stable / CARE A2+ (05-Oct-21)
2	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A2+ (11-Jul-23)	1)CARE A2+ (16-Sep-22)	1)CARE A2+ (05-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure -3: Detailed explanation of covenants of rated instrument/facilities: Not applicable

Annexure -4: Complexity level of instruments rated

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:
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