

Rating Update

May 31, 2019 | Mumbai

KSE Limited

Update as on May 31, 2019

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

- Changes in government policies with respect to milk prices and cattle feed
- Susceptibility to volatility in prices of coconut oil cakes and rice bran
- Significant increase in revenue and operating margin
- Capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from KSE Limited (KSE) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About The Company

KSE (formerly, Kerala Solvent Extractions Ltd) was set up by the late Mr K L Francis, the late Mr T O Paul, the late Mr P V Devassy, and Mr M C Paul in 1963 as a closely held public limited company. It manufactures cattle feed, and undertakes milk-processing and solvent-extraction. KSE is the leader in the cattle feed industry in Kerala, with a share of more than one-third of the market. It also has presence in Tamil Nadu and Karnataka. The company is listed on the Bombay Stock Exchange.

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Rating Rationale

August 30, 2018 | Mumbai

KSE Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.63 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

Rs.10 Crore Fixed Deposits	FA/Stable (Reaffirmed)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed ratings on the bank facilities of KSE Limited (KSE) at 'CRISIL A-/Stable/CRISIL A2+' and on its fixed deposits at 'FA/Stable'.

The rating continues to reflect KSE's steady business risk profile, supported by growth in revenue and increase in profitability, on account of benefits derived from lower input prices. Revenue rose about 24.5% year-on-year, to Rs 1,304.1 crore in fiscal 2018, supported largely by higher realisation in cattle feed, which contributes about 85% to the overall turnover. Profitability increased to 8.4% in fiscal 2018 from 2.9% the previous fiscal, backed by lower prices of key input materials, including maize, rice bran, and wheat. Since the company enjoys strong bargaining power because of its premium quality, selling price has remained stable, resulting in significant increase in operating profit. As a result, cash accrual rose to Rs 61.6 crore in fiscal 2018. KSE is planning to invest this cash in developing manufacturing facilities in Karnataka to further penetrate the market. Nevertheless, CRISIL believes that with a correction in input prices, profitability may decline over the medium term.

Financial risk profile remains robust, with total outside liabilities to tangible network (TOLTNW) likely to be at 0.5 time over the medium term. The capital expansion project, to be undertaken over the next two years, will be entirely funded through accrual, and is not expected to have any major impact on the capital structure. Additionally, healthy profitability metrics and prudent working capital management are likely to support key financial metrics over the medium term.

The ratings reflect KSE's established regional market position in the cattle feed industry, and healthy financial risk profile. These strengths are partially offset by susceptibility to volatile raw material prices, and intense competition.

Key Rating Drivers & Detailed Description

Strengths

* **Established market position:** KSE is a leader in the cattle feed segment, with a healthy market share in Kerala. Strong, exclusive distribution network of more than 600 dealers, high-quality products, and efficient customer support through services such as on-call veterinary doctor should help maintain the market position. Revenue grew at a compound annual rate of 13% in the three years through fiscal 2018, backed by strong cattle field sales. Established market position and penetration into new geographies will, likely, ensure steady growth in revenue.

* **Healthy financial risk profile:** Financial risk profile is healthy, with moderate networth of Rs 143.78 crore and low TOLTNW of 0.6 time as on March 31, 2018. Interest coverage was healthy at 79 times in fiscal 2018.

Weakness:

* **Susceptibility to intense competition and volatility in raw material prices:** The cattle feed industry in Kerala is highly competitive, with the presence of state-run players such as Kerala Feeds Ltd and Kerala Co-operative Milk Marketing Federation Ltd. Ability to improve volumes and realisation is dependent on milk prices and movement in the prices of raw materials. The state government indirectly regulates milk prices via state co-operatives, and is usually reluctant to increase the rates because of the social aspect of milk and its effect on food inflation. Rise in input costs for a dairy farmer, in the form of high cattle-feed prices, without commensurate increase in realisation, will discourage cattle feed purchase, especially from premium players such as KSE.

Outlook: Stable

CRISIL believes KSE will continue to benefit from its established regional market position. The outlook may be revised to 'Positive' if sustained improvement in revenue and stable operating margin strengthen business risk profile. Conversely, the outlook may be revised to 'Negative' if a decline in revenue, profitability, and cash accrual, or stretch in working capital cycle weakens key credit metrics.

About the Company

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Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs. Cr.	1304.1	1047.2
Profit After Tax	Rs. Cr.	69.63	16.36
Profit After Tax Margin	%	5.3	1.6
Adjusted Debt/Adjusted Net worth	Times	0.31	0.45
Interest coverage	Times	78.8	13.1

Any other information: Not applicable

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	60	CRISIL A-/Stable
NA	Cash management service	NA	NA	NA	1.5	CRISIL A2+
NA	Proposed long term bank loan facility	NA	NA	NA	1.5	CRISIL A-/Stable
NA	Fixed Deposits	NA	NA	NA	10	FA/Stable

Annexure - Rating History for last 3 Years

	Current			2018 (History)		2017		2016		2015		Start of 2015
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fixed Deposits	FD	10.00	FA/Stable			31-08-17	FA/Stable	05-10-16	FA/Negative	08-07-15	FA/Stable	FA/Stable
Fund-based Bank Facilities	LT/ST	63.00	CRISIL A-/Stable/ CRISIL A2+			31-08-17	CRISIL A-/Stable/ CRISIL A2+	05-10-16	CRISIL A-/Negative / CRISIL A2+	08-07-15	CRISIL A-/Stable/ CRISIL A1	CRISIL A-/Stable/ CRISIL A2+

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	60	CRISIL A-/Stable	Cash Credit	60	CRISIL A-/Stable
Cash Management Service	1.5	CRISIL A2+	Cash Management Service	1.5	CRISIL A2+
Proposed Long Term Bank Loan Facility	1.5	CRISIL A-/Stable	Proposed Long Term Bank Loan Facility	1.5	CRISIL A-/Stable
Total	63	--	Total	63	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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