CRISIL Ratings

Rating Update

June 15, 2023 | Mumbai

Kanchi Karpooram Limited

Update as on June 15, 2023

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

The key rating sensitivity factors for the rating include:

Upward factors

- Strong Improvement in revenue along with sustenance of margin leading net cash accruals of over Rs.35 crore.
- Sustenance of strong financial risk profile and maintenance of moderate cash and cash equivalents

Downward factors

- Sustained decline in revenue or operating margins dropping below 14%, leading to significantly lower net cash accruals
- Stretch in working capital or higher than expected debt funded capex or large dividend payouts weakens the financial risk profile.

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

CRISIL Ratings 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

Incorporated in 1991, KKL manufactures camphor and its by-products, dipentene, sodium acetate trihydrate, and pine tar. The company's manufacturing unit is in Kanchipuram.The company is promoted by Mr Suresh Shah and his family. The company is listed on the Bombay Stock Exchange.

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CRISIL
Ratings

Rating Rationale

July 28, 2022 | Mumbai

Kanchi Karpooram Limited

Rating Reaffirmed

Rating Action

Corporate Credit Rating	**CCR BBB/Positive (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CCR BBB/Positive' corporate credit rating to Kanchi Karpooram Limited (KKL)

The rating continues to reflect KKL's promoters' extensive experience and KKL's established market position, established relationships with major suppliers and customers and healthy financial risk profile. These rating strengths are partially offset by its susceptibility to volatility in raw material prices, intense competition from the domestic manufacturers as well as revival of imports from China.

Key Rating Drivers & Detailed Description

Strengths:

- **Promoters' extensive experience and KKL's established market position:** KKL benefits from its promoters' extensive experience in the camphor industry, and its position as one of the leading players in the Indian camphor market. The Shah family has experience of around four decades and healthy relationship with customers and suppliers. Further, India's camphor industry benefits from the lower imports from China and healthy domestic demand, leading to improved realization compared to historical levels. While increase in domestic capacity is expected to moderate realization, it is continued to be supported by growth in domestic demand and lower import from China. KKL being one of the large players in India is expected to continue to benefit from the favorable market conditions and enhanced capacity.

- **Healthy financial risk profile**: The financial risk profile is supported by comfortable net worth and debt protection metrics. As on March 31, 2022, net worth is estimated at around Rs.185 crores. Despite the capex in the past, leverage remains low, with total outside liabilities to adjusted net worth ratio at less than 0.1 time as on March 31, 2022. Debt protection metrics are healthy with interest coverage at around 50.3 times during fiscal 2022.

Weaknesses:

- **Susceptibility to volatility in raw material prices:** Operating margin is moderate, however the same has been volatile in the range of 44.3% to 17.2% in the last three fiscals ended FY22. In FY21, Operating margin increased from 18.2% to 44.3% and again came down to 17.3% in the next fiscal i.e., FY22. This was due to improved realization owing to reduced imports from China and favorable raw material price in FY21. KKL's major raw material is alpha pinene, which it imports from Indonesia Vietnam, Brazil and other European countries and accounts for majority of KKL's raw material cost. Alpha pinene prices have been volatile, thereby exposing the company to price risk. So, any adverse movement in prices can impact profitability of the company and the same remains rating sensitivity factor.

- **Intense competition from the domestic manufacturers as well as revival of imports from China:** The camphor industry is an intensely competitive business, with presence of many domestic players as well as foreign players, especially from China. Due to the favorable market conditions, players are going ahead with capacity expansion, increasing the supply and intensifying competition among players – likely to lead to moderation in realization. Revival of imports from China, may also have an adverse impact on the entire industry.

Liquidity: Adequate

Net Cash accrual are expected to be more than Rs.30 crores over the medium term. Cash and bank balance of around Rs.26.6 crores as on March 31, 2022 also supports liquidity. The Company does not have any term debt obligation and has not availed any working capital facilities from any bank

Outlook: Positive

CRISIL Ratings believes KKL's business risk profile is expected to further strengthen supported by favorable market conditions

Rating Sensitivity factors
Upward factors
- Strong Improvement in revenue along with sustenance of margin leading net cash accruals of over Rs.35 crore.
- Sustenance of strong financial risk profile and maintenance of moderate cash and cash equivalents

Downward factors
- Sustained decline in revenue or operating margins dropping below 14%, leading to significantly lower net cash accruals
- Stretch in working capital or higher than expected debt funded capex or large dividend payouts weakens the financial risk profile.

About the Company
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Key Financial Indicators

As on / for the period ended March 31		2022*	2021
Operating income	Rs crore	250.4	184
Reported profit after tax	Rs crore	29.7	62.7
PAT margins	%	11.9	34.1
Adjusted Debt/Adjusted Net worth	Times	0.00	0.00
Interest coverage	Times	50.3	262

**Provisional*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr.)	Complexity Level	Rating Assigned with Outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT		--		--	05-08-21	Withdrawn	30-11-20	CRISIL B+ /Stable(Issuer Not Cooperating)*	30-08-19	CRISIL B+ /Stable(Issuer Not Cooperating)*	CRISIL B+ /Stable(Issuer Not Cooperating)*
Corporate Credit Rating	LT	0.0	CCR BBB/Positive		--	23-08-21	CCR BBB/Positive		--		--	--

All amounts are in Rs.Cr.
** - Issuer did not cooperate; based on best-available information*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Assessing Information Adequacy Risk
Rating Criteria for Chemical Industry
Understanding CRISILs Ratings and Rating Scales

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