

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

April 04, 2022 | Mumbai

Kkalpana Industries (India) Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A3+'; Removed from 'Watch Negative'; Ratings Withdrawn

Rating Action

Total Bank Loan Facilities Rated	Rs.682 Crore
Long Term Rating	CRISIL BBB/Stable (Downgraded from 'CRISIL A-'; Removed from 'Rating Watch with Negative Implications'; Rating Withdrawn)
Short Term Rating	CRISIL A3+ (Downgraded from 'CRISIL A2+'; Removed from 'Rating Watch with Negative Implications'; Rating Withdrawn)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has removed its ratings on the facilities of Kkalpana Industries (India) Ltd (KIIL) from 'Rating Watch with Negative Implications'. The ratings have been downgraded to '**CRISIL BBB/CRISIL A3+**' from 'CRISIL A-/CRISIL A2+'. Further, '**Stable**' outlook has been assigned to the long-term rating. Effective, March 18, 2022, the compounding business has been transferred to Ddev Plastiks Industries Ltd (DPIL: 'CRISIL A-/Stable/CRISIL A2') while the re-processing business has been retained in KIIL. Hence, the existing bank facilities of KIIL have been transferred to DPIL and the rating is **withdrawn** from KIIL. The withdrawal is in line with the policy of CRISIL Ratings on withdrawal of the bank loan ratings.

The ratings take into account receipt of NCLT approval for reorganisation plan of the company and completion of demerger of the compounding segment to Ddev Plastiks Industries Ltd (DPIL), while KIIL will continue to hold the reprocessing business. The company had announced the restructuring plan in December 2020 (to be effective from 1st April 2021) which is now complete. The demerger has impacted the credit profile of the company since the demerged segment, i.e. the compounding business contributed to around 97% of the erstwhile KIIL.

As per the proposed scheme, the reprocessing segment (~3% of the revenues of fiscal 2021) will remain with KIIL. This is because there are restrictions on the transfer of licenses held for reprocessing of plastic waste. A similar license is also held by a Dubai-based wholly owned subsidiary of KIIL. Each shareholder of KIIL would be issued shares of DPIL in 1:1 ratio, in consideration for the demerger; and DPIL will also be listed with its shareholding mirroring that of KIIL.

The ratings also reflect the expected improvement in the business risk profile with ramp up in capacity utilisation levels and improving profitability. The financial risk profile remains strong with minimal dependence on external borrowings and continuation of unsecured loans of Rs. 16 crores from promoters. Expected cash accruals of Rs. 5-10 crores per annum will be sufficient to fund working capital requirements. These strengths are partially offset by small scale of operations, and relatively lower track record in the reprocessing business.

Analytical Approach

CRISIL Ratings has also combined the business and financial risk profiles of KIIL and its 99.99% subsidiary, Plastic Processors and Exporter Pvt Ltd till fiscal 2021, as the two companies are in the same business and have common management and operational linkages. CRISIL Ratings has also considered loans from the promoters as Neither Debt Nor Equity (NDNE).

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Experienced promoters and commonality of business

KIIL is promoted by Kolkata-based Susana family that has been associated with the polymer compounding industry for over five decades. Over the years, the promoters have diversified product profile, developed a strong understanding of market

dynamics, and established healthy relationships with suppliers and customers. The promoters have extended need-based support in the past and should continue to extend timely financial support in case of exigency.

KIIL was the largest polymer compounder in India with capacity of 292,500 tonne per annum (TPA), with market leadership in PE compounds catering to the low- and medium-voltage power cable industry pre-demerger. The company already has the necessary licenses in place for reprocessing segment which will help in furthering the growth of the company.

Comfortable capital structure

Net worth is modest at Rs 30-35 crore, however minimal dependence on debt is expected to lead to healthy credit metrics with gearing expected at 0.15 time, as on March 31, 2022. Further, all outstanding term loans have been prepaid by the company. With no major capital expenditure (capex) and effective working capital management backed by timely realization of receivables, capital structure is expected to improve over the medium term.

Weakness:

Modest scale of operations

Revenue is expected to remain at Rs 50-100 crore in the medium term, which reflects the modest scale of operations. Consolidation of supplier network for steady procurement of plastic waste will be pertinent for scaling up the business, as they hail largely from the unorganised sector. KIIL will also be setting up reprocessing facilities across the country as part of their expansion plans, and therefore entry into new regions and ability to tie up with the regional suppliers will be key monitorables.

Liquidity: Adequate

Cash accrual is expected to be in the range of Rs. 5-10 crore annually over the medium term with minimal repayments of Rs. 1-2 crores per annum. The company has no major capex plans over the medium term, and any maintenance capex is expected to be funded mainly through internal accrual.

Outlook: Stable

CRISIL Ratings believes that the business risk profile will benefit from the positive demand scenario over the medium term. Financial risk profile should remain comfortable with minimal dependence on debt over the coming fiscals.

Rating Sensitivity Factors

Upward Factors:

- Improvement in scale of operations of KIIL
- Sustenance of operating margins in the range of 10-12% resulting in improved cash generation

Downward Factors:

- Debt funded capex leading to moderation in capital structure and impact debt protection metrics; gearing above 2 times
- Further moderation in business risk profile impacting cash flow generation
- Deterioration in operating profitability on sustained basis

About the Company

Incorporated in 1985 and promoted by Mr Narrindra Surana and Mr. Devkrishna Surana in Kolkata, KIIL has two major operating segments: Compounding division which consists of manufacturing of PE and PVC compounds, master batches, engineering plastics and the Reprocessing division which entails manufacturing of reprocessed compounds.

On December 11, 2020, KIIL announced a scheme of arrangement wherein the compounding business would be demerged to a separate entity Ddev Plastiks Industries Ltd, whereas the reprocessing segment would remain with KIIL (to be effective from 1st April 2021), which is now complete.

Key Financial Indicators

As on/for the period ended March 31	Unit	2021	2020
Revenue	Rs.Crore	1550	1745
Profit After Tax (PAT)	Rs.Crore	24	30
PAT Margin	%	1.5	1.7
Adjusted debt/adjusted networkth	Times	0.30	0.30
Adjusted interest coverage	Times	2.25	1.93

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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
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NA	Cash Credit	NA	NA	NA	147.00	NA	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
NA	Letter of credit & Bank Guarantee	NA	NA	NA	535.00	NA	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Plastic Processors and Exporter Pvt Ltd	Fully consolidated	Managerial Linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	147.0	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)	16-03-22	CRISIL A-/Watch Negative	21-12-21	CRISIL A-/Watch Negative	21-12-20	CRISIL A-/Watch Negative	29-07-19	CRISIL A-/Stable	CRISIL A-/Stable
			--		--	07-09-21	CRISIL A-/Watch Negative	31-08-20	CRISIL A-/Stable		--	--
			--		--	14-06-21	CRISIL A-/Watch Negative	04-06-20	CRISIL A-/Stable		--	--
			--		--	19-03-21	CRISIL A-/Watch Negative		--		--	--
Non-Fund Based Facilities	ST	535.0	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)	16-03-22	CRISIL A2+/Watch Negative	21-12-21	CRISIL A2+/Watch Negative	21-12-20	CRISIL A2+/Watch Negative	29-07-19	CRISIL A2+	CRISIL A2+
			--		--	07-09-21	CRISIL A2+/Watch Negative	31-08-20	CRISIL A2+		--	--
			--		--	14-06-21	CRISIL A2+/Watch Negative	04-06-20	CRISIL A2+		--	--
			--		--	19-03-21	CRISIL A2+/Watch Negative		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	5	IndusInd Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	5	IDFC FIRST Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	20	Axis Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)

Cash Credit	20	Corporation Bank	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	20	HDFC Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	2	RBL Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	60	State Bank of India	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Cash Credit	15	The Federal Bank Limited	CRISIL BBB/Stable (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	135	State Bank of India	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	62	Axis Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	65	Corporation Bank	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	50	The Federal Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	100	HDFC Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	30	IndusInd Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	45	IDFC FIRST Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)
Letter of credit & Bank Guarantee	48	RBL Bank Limited	CRISIL A3+ (Rating Downgraded, Removed from 'Watch Negative' and Withdrawn)

This Annexure has been updated on 04-Apr-2022 in line with the lender-wise facility details as on 31-Jul-2021 received from the rated entity.

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

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

[Rating Criteria for Chemical Industry](#)

[CRISILs Criteria for Consolidation](#)

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