

AksharChem (India) Limited

January 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	40.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long-term/Short-term Bank Facilities	50.00 (enhanced from Rs.40.00 crore)	CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	15.00 (enhanced from Rs.10.00 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total	105.00 (Rs. One hundred five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of AksharChem (India) Limited (AIL) continue to derive strength from its experienced and resourceful promoters, long and established track record of operations in dye-intermediate and pigment industry with focus on export markets, long standing relationship of more than 20 years with reputed international clientele and good prospects for organized players of the Indian dyes/pigment industry on account of implementation of stricter pollution control norms. The ratings also take into consideration its comfortable leverage and strong debt coverage indicators during FY21 (refers to the period from April 01 to March 31) and H1FY22 along with its strong liquidity.

The long term rating of AIL is, however, tempered by the moderate scale of operations with limited product diversity as compared with other large sized and more integrated industry players resulting in high volatility in its operating profitability, susceptibility of its profitability to volatility in raw material prices and foreign exchange rate fluctuations along with competition from various large domestic players in the dyes and dyes intermediate industry and from China in dye-intermediates business which has resulted in declining trend in its profitability over the past few years. The ratings are further constrained by inherent stabilization risk associated with its large-sized precipitated (PPT) silica project which has recently commenced commercial operations as well as risks associated with its expansion project for CPC Green pigments.

Rating Sensitivities

Positive Factors *(Factors that could lead to positive rating action/upgrade):*

- Significant increase in scale of operations along-with revenue diversification
- PBILDT margin above 18% on a sustained basis by managing volatility associated with raw material prices and foreign exchange rates
- Improvement in ROCE above 25% on a sustained basis

Negative Factors *(Factors that could lead to negative rating action/downgrade):*

- PBILDT margin and ROCE below 10% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times along with weakening of debt coverage indicators on a sustained basis
- Any adverse change in government policy significantly affecting the operations of AIL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

AIL is promoted by Mrs. Paru M. Jaykrishna who has vast experience of nearly three decades in the chemical industry (mainly dye-intermediates and pigments). Mrs. Paru Jaykrishna (Chairperson and Managing Director) and Mr. Munjal Jaykrishna (Joint Managing Director and Chief Executive Officer) have been instrumental in the growth of the company's business over the years. Promoters are also supported by team of experienced professionals.

Export focused business along with long standing relationship with its reputed customers

Being an export-oriented unit, AIL reported export sales of Rs.194.95 crore which constituted around 82% of its total sales during FY21. AIL has been one of the largest exporters of Vinyl Sulphone (VS) from India with around 40% share in total exports from India. AIL produces high quality, non-carcinogen grade VS which has resulted in consistent demand from its existing export customers for high-end applications. Large portion of its export sales is to countries like Taiwan and Korea. AIL has long standing relationship with reputed export customers in both VS and CPC green pigment business who consider AIL amongst their "Preferred

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

Supplier". AIL's CPC green pigment division also has Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) registration for exports up to 1,000 MTPA in the European Union. AIL has continued to report healthy capacity utilizations for its VS, H-Acid and CPC green manufacturing plants during FY21 and H1FY22, despite impact of Covid-19 pandemic and issues w.r.to availability of few raw materials on the business operations primarily during Q1FY21. It has also commenced commercial operations of its greenfield PPT silica manufacturing facility from July 2021 onwards.

Comfortable leverage and debt coverage indicators

AIL's capital structure continues to remain comfortable marked by an overall gearing of 0.06x as on March 31, 2021 along with healthy debt coverage indicators marked by TD/GCA of 0.73x during FY21. Despite volatility associated with the business, AIL's leverage and debt coverage indicators have remained comfortable over past many years due to management's conservative stance on availing any significant debt. It's capex for the greenfield PPT silica manufacturing facility of around Rs.100 crore was funded through qualified institutional placement proceeds of around Rs.69 crore and internal accruals.

However, AIL is undertaking expansion of its CPC green manufacturing facility entailing capex of around Rs.40 crore which is expected to be partly funded through term debt of Rs.10 crore. Further, AIL has availed Rs.30 crore term debt towards reimbursement of its silica capex during November 2021. Despite availment of term debt, at favorable rate of interest, its overall gearing is expected to remain comfortable below 0.25x in the medium-term.

Stricter regulatory landscape pertaining to pollution control norms benefiting the organized integrated players; albeit threat from China persists

China is the largest producer of dyes and dyes intermediate in the world followed by India. Cheaper imports of dye intermediates from China and competition amongst domestic manufacturers had impacted the profitability of Indian players till FY13. Structural changes in environmental regulations in China had improved cost competency and sales volume of domestic players during FY17-FY19. However, the dye and dye-intermediate exports reduced during FY20-FY21 due to recommencement of some of the previously closed dye and dye-intermediate capacity in China. Although threat of China persists on account of its large capacities in dyes intermediate segment, comfortable capital structure of the major industry players is expected to result in strong resilience for the domestic dyes and dyes intermediate players.

Stricter pollution control norms in India have benefited organized players like AIL which follow processes like reverse osmosis, multi effect evaporation and brine system to ensure minimum waste generation. AIL spent Rs.13.31 crore on environment sustainability during FY21.

Liquidity: Strong

AIL's strong liquidity is marked by healthy expected cash accruals vis-à-vis low term loan repayment obligations along with low utilization of its fund-based working capital limits at ~13% in the trailing 12 months ended November 2021. Further, AIL had healthy cash flow from operations of Rs.47.83 crore during FY21 on the back of receipt of GST receivables of around Rs.18 crore. Its operating cycle remained lean at 78 days during FY21 and current ratio remained healthy at 1.81x as on March 31, 2021. AIL's capex requirements are expected to be partly funded through term debt for which it has sufficient gearing headroom marked by comfortable overall gearing of 0.06 times as on March 31, 2021.

Key Rating Weaknesses

Relatively moderate scale of operations and its limited revenue diversity

AIL's scale of operations in terms of its total operating income (TOI) continued to remain moderate as compared with other large industry players which derive competitive edge due to their wide product range of dye intermediates, forward integration into manufacturing of dyes, optimization of effluent handling cost and relatively more stable PBILDT margins. However, AIL is gradually diversifying its revenue and end-user industry profile through dye-intermediates (textile), pigments (printing ink) and PPT silica (tyre & rubber). Although, the contribution of VS to net sales of AIL has witnessed a declining trend, from 66% in FY18 to 49% in FY21, due to growth in sales of other products, volatile VS business continues to be the major driver of revenue followed by sales of CPC green pigment and H-acid. During FY21, VS, CPC green pigment and H-acid constituted ~49%, 35% and 17% respectively of AIL's net sales. Commencement of commercial operations of its PPT silica plant from July 2021 onwards is expected to further diversify its revenue stream going forward.

Decline in its moderate scale of operations as well as profitability during FY21; albeit some improvement in H1FY22

The TOI of AIL moderated by 5% on y-o-y basis during FY21 to Rs.247.21 crore mainly on account of moderation in sales realization of VS amidst low demand scenario due to covid-19 pandemic. Further, AIL's profitability also remained moderate marked by PBILDT margin of 9.97% during FY21 as compared with 10.29% during FY20; however, its low debt levels have continued to provide adequate cushion to its debt coverage indicators.

AIL's TOI improved to Rs.178.96 crore during H1FY22 on account of recovery in demand for VS from the textile industry and its improved realizations. Its PBILDT margin remained stable at 9.97% during H1FY22. AIL's average VS sales realizations improved from Rs.243/ kg during H1FY22 to more than Rs.300/kg during Q3FY22 which is expected to aid its sales and profitability in FY22.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

AIL's main raw materials for VS include acetanilide, chlorosulphonic acid, ethylene oxide, thionyl chloride, naphthalene whereas for CPC green pigment the major raw materials are CPC blue crude and aluminium chloride. AIL procures majority of its raw material from the domestic market and largely within Gujarat. Most of the raw materials are derivatives of crude oil and their

prices vary in accordance with variation in international market price of crude oil. Hence, AIL's profitability is susceptible to volatility in prices of raw materials especially as its operations are less integrated. Furthermore, as AIL sources majority its raw materials from the domestic market whereas major proportion of its sales is export oriented, its profitability is also susceptible to risk associated with fluctuations in foreign exchange rates. However, AIL has a policy of hedging its entire foreign currency exposure through forward contracts which mitigates the risk to a large extent.

Stabilization risks associated with its large-sized PPT silica project and risks associated with its expansion project for CPC Green pigments

AIL had undertaken a greenfield project to enter new business of speciality chemicals by setting up a plant for manufacturing of PPT silica at Dahej in Gujarat with capacity of 12,000 MTPA entailing capex of around Rs.100 crore. AIL started commercial operations at its PPT silica facility from July 2021 onwards. AIL has plans to gradually ramp-up its capacity utilization with sale of customised silica grades to the domestic tyre industry. Currently, AIL is exporting silica to neighbouring countries like Sri Lanka, Bangladesh etc. along with sale to domestic rubber manufactures. Stabilization and ramp-up of its silica operations would be crucial to improve its Return on Capital Employed (RoCE) which has moderated to 6.21% during FY21.

AIL had recently started production of new grades of Pigment Green 7 to tap a new set of customers in plastic industry and is also undertaking expansion of its CPC green manufacturing capacity to cater to the demand from coatings and plastic industries. Timely implementation and stabilization of this capex would also be crucial.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy of Default Recognition

Rating Methodology – Manufacturing Companies

Financial Ratios – Non-Financial Sector

Liquidity Analysis of Non-Financial Sector Entities

Criteria for Short Term Instruments

About the Company

Incorporated in 1989, AIL is promoted by Mrs. Paru M. Jaykrishna who is also the promoter of Asahi Songwon Colors Limited (ASCL). AIL was initially engaged only in the manufacturing of Vinyl Sulphone (VS - a dye intermediate) which is used as a raw material for manufacturing of reactive dyes that find application in the cotton textile industry. However, with effect from April 01, 2014, as per the scheme of arrangement approved by the H'ble High Court of Gujarat, the Green pigment (CPC green) division of ASCL was merged into AIL. Green pigment mainly finds application in manufacturing of printing ink, plastic and paint. Further, AIL ventured into manufacturing of H-acid (a dye intermediate used as a raw material for manufacturing of reactive dyes) from September 2018 and recently commenced manufacturing of precipitated silica (which has major application in tyre manufacturing) from July 2021. As on September 30, 2021, AIL's installed manufacturing capacity comprised of 7,800 Metric Tons Per Annum (MTPA) for VS, 2,400 MTPA for CPC green, 1,200 MTPA for H-acid and 12,000 MTPA for precipitated silica.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	260.65	247.21	178.96
PBILDT	26.82	24.64	17.84
PAT	15.72	12.50	8.00
Overall gearing (times)	0.05	0.06	0.05
Interest coverage (times)	24.22	35.97	42.48

A: Audited, UA: Unaudited

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: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	50.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	October 2026	40.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1+	-	1)CARE A1+ (10-Nov-20) 2)CARE A1+ (01-Apr-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-
2	Fund-based - LT/ ST-EPC/PSC	LT/ST*	50.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (10-Nov-20) 2)CARE A+; Stable / CARE A1+ (01-Apr-20)	1)CARE A+; Stable / CARE A1+ (25-Oct-19) 2)CARE A+; Stable / CARE A1+ (04-Apr-19)	-
3	Fund-based - LT-Term Loan	LT	40.00	CARE A+; Stable				

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 4: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

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

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About CARE Ratings Limited:

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