Amal Speciality Chemicals Limited

August 09, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	57.00 (Enhanced from 50.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+ (CE); Stable [Single A Plus (Credit Enhancement); Outlook: Stable]
Long term bank facilities	10.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**67.00 (₹ Sixty-Seven Crore Only)**		

Details of facilities in Annexure-1

Unsupported Rating As stipulated vide SEBI circular dated June 13, 2019
Withdrawn [Withdrawn]

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Amal Speciality Chemicals Limited (ASCL) derives comfort from its strong parentage; being a step-down subsidiary of Atul Limited (Atul; rated CARE AA+; Stable/ CARE A1+) which has an established track record of operations in the chemical industry and strong credit risk profile; along with the managerial support that ASCL receives from Atul. The rating also derives strength from strategic location of the upcoming plant of ASCL which is envisaged to provide strong operational synergies with Atul by acting as a backward integration for Atul's operations, experience of the group in setting up and operating sulphuric acid plants and the committed off-take agreement of ASCL with Atul thereby reducing the saleability risk of its products to an extent.

The rating is, however, constrained by implementation and stabilization risks associated with its ongoing debt-funded green-field project, single product profile, expected small scale of operations of ASCL at full capacity utilization, susceptibility of its profitability to volatile raw material prices and exposure to stringent pollution control norms.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely stabilization of plant operations post completion of the project, significant growth in scale of operations and sustained track record of realization of envisaged sales and profitability leading to healthy debt coverage indicators
- Significant improvement in its leverage
- Significant increase in its committed off-take by Atul

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant deterioration in the credit profile of its ultimate parent i.e. Atul
- Sustained stabilization related issues in the plant resulting in lower than envisaged capacity utilization and thereby adversely impacting its returns compared with envisaged
- Lower than committed off-take by Atul impacting debt coverage indicators of ASCL on a sustained basis
- Significant deterioration in its capital structure

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of Atul having long-standing presence in chemical industry along with common management: ASCL is wholly owned by Amal Limited (Amal) whereas Amal is a step down subsidiary of Atul whereby Atul holds 49.86% in Amal majorly through its investing company Atul Finserv Limited. Atul has one of the biggest integrated chemical complexes in India with a well-diversified product portfolio of around 900 products and 400 formulations divided into two segments viz. Life Science Chemicals (LSC) and Performance & Other Chemicals (POC) catering to the requirement of diversified industries like textile, paints & coatings, adhesives, dyestuff, agriculture, fragrance & flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical, aerospace, composites, construction, glass, etc. ASCL shares common management with Atul, which has a vast experience in chemical business. Moreover, Atul has a track record of supporting its group companies.

Strategic location of ASCL's plant in the vicinity of Atul's production plant providing operational synergies: ASCL's upcoming plant is located near Atul's aromatic products manufacturing facility, whereby majority of Atul's sulphuric acid and other downstream products requirement is expected to be met through ASCL. Atul group has set up captive facility for sulphuric acid and other derivatives in ASCL with an aim to ensure consistent availability of quality products, safeguard against high volatility in the market prices of these products and savings in freight cost. During FY22, ASCL's parent, Amal, which is in same line of business had around 78% of its TOI contributed by way of sales to Atul leading to operational synergies.

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

Experience of the group in setting up and operating sulphuric acid plants: Both Amal and Atul have prior experience of setting up and operating sulphuric acid plants. Amal has set-up and is operating 140 TPD sulphuric acid plant for more than a decade at Ankleshwar. Similarly, Atul has set up and is operating 300 TPD sulphuric acid plant at Valsad. Experience of promoter group in setting up and operating sulphuric acid plants is expected to help ASCL in timely implementation and stabilization of the operations of its green-field project.

Committed off-take by Atul reducing stabilization risk: ASCL has entered into a formal sale agreement with Atul wherein Atul, in aggregate, has agreed to off-take 34,947 MTPA of sulphuric acid and sulphur trioxide (interchangeable between sulphuric acid and sulphur trioxide) from ASCL. Out of total capacity, around 39% production volume shall have take-or-pay agreement with Atul which mitigates the salability risk for ASCL to an extent.

Liquidity: Adequate
ASCL's liquidity is underpinned from the fact that it has access to timely need-based support from Amal (its parent) as well as from Atul which has also extended its letter of comfort for large part of the debt sanctioned in Amal and ASCL. The debt for the project has already been tied up with term debt repayments to commence from December 31, 2022 whereas project is likely to achieve CoD in August 2022. Further, ASCL has 45 days payment terms with Atul which shall aid its liquidity. Additionally, ASCL has already got sanction of Rs.10 crore of working capital limit to meet its working capital requirement post COD.

Key rating weaknesses
Implementation and stabilization risks associated with ongoing debt funded project: ASCL has an ongoing project to establish manufacturing facility for sulphuric acid and other downstream products with an installed capacity of 300 TPD. The project is in the premises of Amal (Ankleshwar). The project is at an advanced stage of implementation and is likely to achieve CoD in August 2022. The project cost is envisaged at ₹93 crore (revised from earlier estimate of ₹70 crore due to rise in input costs) being funded by ₹57 crore of bank loan and balance ₹36 crore by way of promoter's contribution. ASCL is exposed to project stabilization risk post commencement of operations.

Small scale of operations with high dependence on single product profile: ASCL has planned to have installed capacity of 300 TPD for manufacturing sulphuric acid and other downstream products. On account of limited manufacturing capacity and commodity nature of the products manufactured, ASCL's scale of operations are expected to remain small with high dependence on a single product.

Susceptibility of its profit margins to volatile raw material prices: The raw material cost is envisaged to form around 70% of total cost structure of company, wherein sulphur is one of the key raw materials required for production of sulphuric acid and other downstream products. During FY22, prices of sulphur reached to a decadal high level, and it continued to rise further till June 2022 which impacted the profitability of its parent, Amal, during FY22 and Q1FY23. Accordingly, softening of sulphur prices would be critical for ASCL as it is about to commence its commercial operations from August 2022.

Risk associated with stringent pollution control norms: Operations of ASCL shall remain subject to various environment related regulatory compliances in a stringent manner. Also, pollution related norms are evolving day by day in India. Accordingly, continuous adherence to defined pollution control norms are mandatory for seamless operations. Atul group has been complying with the required pollution control norms and there have not been any adverse observations in the last many years.

Analytical approach: Standalone
Standalone along with factoring strong operational and financial linkages with its strong parent (Atul) because ASCL is setting up its project as a backward integration to meet the sulphuric acid requirement of Atul.
In compliance with the Reserve Bank of India's guidance note on Bank Loan – Credit Enhanced ratings dated April 22, 2022 and subsequent FAQs dated July 26, 2022, CARE Ratings has not assigned a Credit Enhanced rating to the loan backed by Letter of Comfort of Atul.

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
Rating methodology: Notching by factoring linkages in ratings
Rating methodology – Project stage companies
Policy on withdrawal of ratings

About the company
ASCL, incorporated in October 2020, is a wholly owned subsidiary of Amal which in turn is a subsidiary of Atul. ASCL was incorporated to set up a project to manufacture sulphuric acid and other downstream products such as oleum 65%, sulphuric dioxide and sulphuric trioxide with installed capacity of 300 tonne per day (TPD) at Ankleshwar (adjacent to Amal's existing 140 TPD facility and Atul's aromatic manufacturing facility). The project is currently at an advanced stage of implementation and is likely to achieve CoD in August 2022. Out of the total production of ASCL, around 39% is committed to be off-taken by Atul to meet its captive requirement.

Brief financials of ASCL: Not applicable as ASCL is a project stage entity

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 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-Term Loan		-	-	December 2027	57.00	CARE A+; Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE A+; Stable

Annexure-2: Rating history (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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	57.00	CARE A+; Stable	-	1)CARE A+ (CE); Stable (16-Aug-21)	1)Provisional CARE A+ (CE); Stable (08-Feb-21)	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE A- (16-Aug-21)	1)Provisional CARE A- (08-Feb-21)	-
3	Fund-based - LT-Cash Credit	LT	10.00	CARE A+; Stable				

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-4: Bank Lender Details for this Company

To 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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