Amal Limited

August 09, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	4.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A+ (CE); Stable [Single A Plus (Credit Enhancement); Outlook: Stable]
Total Bank Facilities	**4.00 (₹ Four 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Withdrawn [Withdrawn]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 Limited (Amal) derives comfort from its strong parentage; being a 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 Amal receives from Atul. The rating also derives strength from strategic location of Amal's manufacturing facility for Atul as it acts as a backward integration for Atul's operations leading to its healthy capacity utilization, moderate capital structure and adequate liquidity.

The rating is, however, constrained on account of its single product profile with small scale of operations, susceptibility of its profitability to volatile raw material prices leading to moderation in its profitability during FY22 (refers to April 1 to March 31), risks related to stringent pollution control norms and inherent risks associated with the implementation and stabilization of a large-size debt-funded capex in its wholly-owned subsidiary (Amal Speciality Chemicals Limited; ASCL); albeit the project is at an advanced stage of completion and the offtake agreement executed with Atul is likely to mitigate the post-implementation project risk to an extent.

Rating sensitivities

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

- Significant growth in its consolidated scale of operations post completion of the ongoing project under its subsidiary ASCL and realising envisaged returns therefrom.
- Earning PBILDT margin of more than 45% leading to healthy debt coverage indicators, along with significant improvement in its leverage on a sustained basis
- Significant increase in committed off-take by Atul from Amal and ASCL

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

- Significant deterioration in the credit profile of Atul
- Sustained stabilization related issues in its subsidiary, ASCL, resulting in lower than envisaged capacity utilization and thereby adversely impacting its returns compared with envisaged
- Lower than committed offtake by Atul resulting in adverse impact on its debt coverage indicators on a sustained basis
- Any large debt funded capex/acquisition leading to 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: Amal is a 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. Amal 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 Amal's plant in the vicinity of Atul's production plant providing operational synergies: Amal's plant is located near Atul's aromatic products manufacturing facility, whereby majority of Atul's sulphuric acid and other downstream products requirement is met through Amal. Atul group has set up captive facility for sulphuric acid and other derivatives in Amal 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, around 78% of Amal's TOI was 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

Moderate capital structure: On a standalone basis Amal has no debt except redeemable preference shares of Rs.1.73 crore as on March 31, 2022 leading to comfortable capital structure. However, on a consolidated basis, its leverage marked by overall gearing stood at a moderate level of 1.44 times as on March 31, 2022 mainly upon availing term debt for the green-field project being taken up in its subsidiary viz. ASCL. Its capital structure is expected to improve from this level as it has no plans to avail any significant debt going forward whereas accretion to net-worth is likely to improve after commencement of operations the greenfield project in ASCL.

Liquidity: Adequate
Amal's liquidity is adequate marked by moderate accruals with no bank debt at standalone level. With expected increase in capacity after project completion in ASCL, Amal's consolidated accruals are expected to improve from FY23 onwards. With an overall gearing of 1.44 times as on March 31, 2022, the company has adequate gearing headroom, to raise additional debt. However, the project pertaining to ASCL is at an advanced stage and there is no further requirement of sizeable capex. Amal has yet not availed its fund based working capital limits sanctioned with the bank. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Further, for additional capacity of ASCL, working capital limits have already been tied-up separately by ASCL.

Key rating weaknesses
Small scale of operations with high dependence on single product profile: Amal has installed capacity of 140 TPD for manufacturing sulphuric acid and other downstream products. On account of limited manufacturing capacity and commodity nature of the products manufactured, Amal's scale of operations remained low marked by TOI of ₹43.48 crore in FY22. Also, even after completion of project of ASCL, scale of operations of Amal is likely to remain small with high dependence on a single product.

Susceptibility of its profit margins to volatile raw material prices: The raw material cost forms 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 Amal during FY22 and Q1FY23. During FY22, operating profitability marked by PBILDT margin of Amal moderated to 9.09% compared to 37.00% during FY21. Its scale of operations and operating profitability were further impacted during Q1FY23 due to scheduled maintenance shut down taken by Amal for around a month. However, sulphur prices have started declining from July 2022 onwards and the same is expected to result in improved operating profitability in balance part of FY23.

Risk associated with stringent pollution control norms: Operations of Amal are 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. Company has been complying with the required pollution control norms and there have not been any adverse observations in the last many years.

Large size project taken up in its subsidiary which is partly debt funded: Amal through its subsidiary ASCL has an ongoing project to establish manufacturing facility for sulphuric acid with an installed capacity of 300 TPD. The project is located in the premises of Amal Limited (in Ankleshwar). The project is at an advanced stage of implementation and is likely to achieve CoD in August 2022, although, it has already encountered cost overrun of around ₹23 crore from previously envisaged levels. The project cost is envisaged at ₹93 crore and is being funded by ₹57 crore of bank loan and balance ₹36 crore by way of promoter's contribution. Amal is exposed to project stabilization risk and its ability to achieve envisaged scale of operations along with envisaged profitability from ASCL. However, Atul has committed to off-take around 39% of the total production of ASCL which reduces the project stabilization risk to an extent.

Analytical approach: Consolidated
CARE Ratings has adopted 'Consolidated' approach for Amal Limited on account of business synergies with its sole wholly owned subsidiary (viz. ASCL) wherein it has taken up a project to expand its consolidated sulphuric acid capacity in line with requirement of Atul. Also, Amal's strong operational and financial linkages with its parent company Atul Limited are factored in while arriving at the rating.
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: Consolidation
Policy on withdrawal of ratings

About the company
Incorporated in July 1974, Amal is a publicly listed company and a subsidiary company of Atul. It is engaged in the manufacturing of bulk chemicals such as sulphuric acid, oleum and their downstream products such as sulphur dioxide and sulphur trioxide at its manufacturing site located at Ankleshwar, Gujarat, with installed capacity of 140 Tonnes Per Day (TPD). It has one wholly-owned subsidiary, ASCL.

Brief Financials of Amal – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	30.42	43.48	10.92
PBILDT	11.26	3.95	-1.85
PAT	8.80	1.11	-1.80
Overall gearing (times)	0.17	1.44	NA
Interest coverage (times)	15.35	4.16	NM

A: Audited; Prov.: Provisional; NA: Not available; NM: Not meaningful; Financials are classified as per CARE Ratings' standards.

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-Cash Credit		-	-	-	4.00	CARE A+; Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn

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-Cash Credit	LT	-	-	-	1)Withdrawn (21-Jan-22) 2)Provisional CARE AA+ (CE); Stable (16-Aug-21)	1)Provisional CARE AA+ (CE); Stable (08-Feb-21)	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE A- (21-Jan-22) 2)CARE A- (16-Aug-21)	1)CARE A- (08-Feb-21)	-
3	Fund-based - LT-Cash Credit	LT	4.00	CARE A+; Stable	-	1)CARE A+ (CE); Stable (21-Jan-22)	-	-

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	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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About us:
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