

## AksharChem (India) Limited

February 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	34.00	CARE A; Stable	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	50.00	CARE A; Stable / CARE A1	Revised from CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable / A One Plus)
Short Term Bank Facilities	15.00	CARE A1	Revised from CARE A1+ (A One Plus)

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of AksharChem (India) Limited (AIL) factors in the moderation in its operating profitability and Return on Capital Employed (ROCE) to below 10% on a sustained basis impacting its debt coverage indicators. The profitability was severely impacted in 9MFY23 (refers to the period April 1 to Dec. 31) on the back of adverse industry scenario in AIL's dye intermediates business leading to intermittent shut down of its dye intermediates plants. The delay in commencement and stabilization of precipitated silica (PPT silica) plant as against earlier envisaged timelines coinciding with downturn in the textile industry has led to significant moderation in its ROCE to less than 7% for past three years ended FY22.

The ratings of 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 adequate liquidity.

The ratings of AIL are, however, tempered by its 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. Additionally, AIL's profitability is susceptible to volatility in raw material prices and fluctuations in foreign exchange rates along-with competition from a large number of domestic players in the dyes and dye intermediates market and from China which has resulted in declining trend in its profitability over the past few years. The ratings are further constrained by delay in realisation of adequate returns from its PPT silica project which has impacted its ROCE.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant increase in scale of operations along-with revenue diversification
- PBILDT margin above 17% on a sustained basis by managing volatility associated with raw material prices and foreign exchange rates
- Improvement in ROCE above 20% on a sustained basis

#### Negative factors

- PBILDT margin and ROCE below 9% 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

### Analytical approach: Standalone

### Key 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Export focused business along with long standing relationship with its reputed customers:** Being an export-oriented unit, AIL reported export sales of Rs.275.76 crore which constituted around 75% of its total sales during FY22. 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 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.

**Comfortable leverage which is likely to sustain:** AIL's capital structure marked by an overall gearing though moderated from 0.06 times as on March 31, 2021 to 0.18 times as on March 31, 2022, continues to remain comfortable. Its debt coverage indicators marked by Total debt/Gross Cash Accruals (GCA) moderated from 0.73x during FY21 to 1.74x during FY22 primarily due to moderation in its operating profitability led by higher input prices as well as subdued demand from the textile industry. Despite volatility associated with the business, AIL's leverage and debt coverage indicators had 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, during FY22, AIL availed Rs.30 crore term debt towards reimbursement of its silica capex. AIL is undertaking further expansion of its PPT silica capacity by 6000 MTPA by FY24-end entailing capex of around Rs.22 crore which is expected to be partly funded through a term debt of Rs.10 crore. The company has decided to not go ahead with CPC green expansion as envisaged earlier and utilize the sanctioned term loan amount towards expansion of PPT silica capacity. Despite expected availment of term debt, its overall gearing is expected to remain comfortable at below 0.20x in the medium-term.

**Liquidity:** Adequate

AIL's adequate 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 ~19% in the trailing 12 months ended December 2022. Further, utilization of working capital borrowings stood negligible as on February 03, 2023. Its operating cycle remained lean at 64 days during FY22 and current ratio remained healthy at 1.77x as on March 31, 2022. However, with the growth in its scale of operations, its working capital requirement is expected to increase going forward. AIL's capex requirements are moderate and are expected to be partly funded through term debt (already tied-up) for which it has sufficient gearing headroom marked by comfortable overall gearing of 0.18 times as on March 31, 2022.

**Key weaknesses**

**Sustained low level of PBILDT margin and ROCE below 10%:** The PBILDT margins of AIL have witnessed a downward trend owing to volatile margins in dye intermediates business over past four years coupled with high dependence on cyclical textile industry. The operating profitability of AIL stood below 10% during FY21 as well as FY22 and CARE Ratings Ltd expects further moderation during FY23 based on current year performance till 9MFY23 led by higher input prices and sluggish demand from the textile industry as well as stiff competition from other players limiting the company from increasing its prices and thereby improve its sales realizations.

The company's PPT silica project was initially expected to be completed by March 2019, but due to various factors, including a delay in equipment delivery, Covid-19-related restrictions, shortages of various raw materials, higher prices for coal and soda ash, delay in receiving approval from major tyre manufacturers, and a revision in the project's scope, the plant ultimately began operating commercially in July 2021. Delay in commencement and stabilization of the PPT silica project coupled with moderation in its PBILDT margins owing to downturn in the textile industry has resulted in moderation in ROCE indicator from 20.34% in FY18 to 6.26% in FY22.

**Moderation in capacity utilization of dye intermediates plants during 9MFY23 due to adverse industry dynamics:**

AIL had continued to report healthy capacity utilizations for its VS, H-Acid and CPC green manufacturing plants of largely around 80% in last five years ended FY22. In the current year, the company had decided to stop the production from its H-acid plant for indefinite period with immediate effect from May 24, 2022 due to sluggish demand scenario coupled with high cost of production. Additionally, the company had shut down its VS facility for maintenance from November 23, 2022 to January 3, 2023.

The company has also commenced commercial operations of its greenfield PPT silica manufacturing facility from July 2021 onwards. Currently, the plant is running at 70% capacity utilization wherein the company is earning only marginal profits. As indicated by company's management, it is expected to achieve full capacity utilization by end April 2023.

**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. During FY22, AIL derived 61% of its revenue from dye intermediates viz., Vinyl Sulphone (50%) and H-acid (11%) which primarily find applications in the textile industry. However, AIL has gradually diversifying its revenue and end-user industry profile through sale of CPC green pigment which finds application in manufacturing of printing inks, plastics, paint, rubber and leather and PPT silica which caters to rubber and tyre industries.

Although, the contribution of VS segment to the net sales of AIL has witnessed a declining trend, from 66% in FY18 to 50% in FY22, led by growth in sales of other products, the volatile VS business continues to be the major contributor in the total revenue followed by sales of CPC green pigment and H-acid.

**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.

**Delay in stabilization and ramp-up of its large-sized PPT silica project impacting ROCE:** 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 of PPT silica plant from July 2021 onwards. AIL had plans to gradually ramp-up its capacity utilization with sale of customised silica grades to the domestic tyre industry. However, on the back of delay in receipt of requisite product approvals from major domestic tyre manufacturers, currently, AIL is exporting silica to neighbouring countries like Sri Lanka, Bangladesh etc. along with sale to domestic rubber manufactures which has resulted in very marginal profitability from PPT silica business. Due to delay in stabilization and ramp-up of its silica operations, its RoCE stood weak at 6.26% during FY22 and expected to decline further in FY23.

### Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios-Non- Financial Sector](#)

[Liquidity Analysis of Non-financial sector](#)

[Criteria for Short Term Instruments](#)

### About the company and industry

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Dyes And Pigments

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. Later on, 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, 2022, 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 (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	246.48	380.34	270.02
PBILDT	23.91	31.72	13.80
PAT	12.50	15.91	1.02
Overall gearing (times)	0.06	0.18	0.09
Interest coverage (times)	34.90	14.38	5.43

A: Audited; Prov.: Provisional; Classified as per CARE Ratings' Standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer to Annexure-2

**Covenants of rated instrument / facility:** Please refer Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/03/2028	34.00	CARE A; Stable
Fund-based - LT/ST-EPC/PSC		-	-	-	50.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A1

#### Annexure-2: Rating History of 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	Non-fund-based - ST-BG/LC	ST	15.00	CARE A1	-	1)CARE A1+ (06-Jan-22)	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	1)CARE A+; Stable	1)CARE A+; Stable

						/ CARE A1+ (06-Jan- 22)	/ CARE A1+ (10-Nov- 20)  2)CARE A+; Stable / CARE A1+ (01-Apr- 20)	/ CARE A1+ (25-Oct- 19)  2)CARE A+; Stable / CARE A1+ (04-Apr- 19)
3	Fund-based - LT- Term Loan	LT	34.00	CARE A; Stable	-	1)CARE A+; Stable (06-Jan- 22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company:**

Sr. No.	Name of the 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 5: Lender details

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. This classification is available at [www.careedge.in](http://www.careedge.in). Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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### Disclaimer:

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