Amal Limited

September 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	4.00	CARE A+; Stable	Reaffirmed

Details of facilities in Annexure-1

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, improvement in its capital structure during FY23 on the back of its rights issue and its 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 over the last two years ended FY23 (FY refers to the period April 1 to March 31), risks related to stringent pollution control norms and the inherent risks associated with the stabilization of a large size recently concluded debt-funded capex in its wholly-owned subsidiary (Amal Speciality Chemicals Limited; ASCL); albeit the offtake agreement executed with Atul is likely to mitigate the post-implementation project risk to an extent.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in its consolidated scale of operations while maintaining its comfortable leverage
- Earning PBILDT margin of more than 30% on a sustained basis leading to healthy debt coverage indicators
- Significant increase in the committed off-take by Atul Limited from Amal as well its subsidiary, ASCL

Negative factors

- Significant deterioration in the credit profile of Atul Limited
- Lower than envisaged capacity utilization 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 marked by an overall gearing beyond 1.00 time

Analytical approach: Consolidated

CARE Ratings Limited (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 expanded its sulphuric acid capacity in line with requirements of Atul. Also, Amal's strong operational and financial linkages with its parent company- Atul Limited are factored in while arriving at the rating.

Outlook: Stable

The 'Stable' outlook on the rating reflects that Amal shall continue to benefit from operational and financial linkages with its parent company - Atul Limited along-with maintaining its improved capital structure with absence of any large debt-funded capex plans in the near term.

Detailed description of the key rating drivers

Key strengths

Strong parentage of Atul having long-standing presence in chemical industry along with common management: Amal is a subsidiary of Atul by virtue of significant control over the operations of Amal whereby Atul holds 49.86% in Amal majorly through its investing company Atul Finserv Limited. Furthermore, Aagam Holdings Pvt Ltd.; a company owned by promoters of

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

Atul Limited holds another majority stake of 16.04% as on June 30, 2023. 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 and strong financial risk profile. 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 being met through Amal. The 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 FY23, around 41% (PY:78%) of Amal's consolidated total operating income (TOI) was contributed by way of sales to Atul. The contribution of sales to Atul decreased on y-o-y basis post commencement of ASCL's plant during FY23 as sales of steam to Atul had only started from June 2023 onwards. Going forward, sales to Atul Limited is expected to increase and as per agreement for committed off take, from the first full year of operations viz., FY24, Atul shall atleast off-take around 39% of the total production of ASCL leading to operational synergies thereby improving the revenue of Amal.

Significant improvement in capital structure during FY23: On a standalone basis, Amal has marginal debt leading to a very comfortable capital structure. However, on a consolidated basis, its leverage stood at a moderate level marked by overall gearing 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.
During FY23, Amal raised around ₹50 crore through rights issue in February 2023. Amal infused the said funds in ASCL which enabled ASCL to prepay the term debt to the tune of ₹32.50 crore. Accordingly, the overall gearing of the company, on a consolidated basis, improved from 1.44x as on March 31, 2022 to 0.51x as on March 31, 2023. Going forward, over the medium term also, the gearing level is expected to remain in a similar range as the company has no plans for any sizeable debt-funded capex.

Liquidity: Adequate

Amal's liquidity is marked by moderate cash accruals with no debt at standalone level and low debt repayment obligation of around ₹1.40 crore annually at consolidated level. With a gearing of 0.51 times as on March 31, 2023, the issuer has an adequate gearing headroom, to raise additional debt. Furthermore, the utilization of its working capital limits has also remained low and accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key weaknesses

Small scale of operations with high dependence on single product profile: Amal manufactures sulphuric acid and its related downstream products. On account of limited manufacturing capacity and commoditized nature of the products manufactured, Amal's total operating income (TOI) remained low at ₹61.32 crore in FY23. The company has increased its installed capacity from 140 TPD to 44O TPD from Q2FY23 post completion of the project undertaken under ASCL. On consolidated basis, at optimum capacity utilization and current prices, the company is expected to earn TOI of around ₹100 crore, depicting a moderate scale of operations even going forward. Accordingly, Amal's prospects would be largely dependent upon demand for this single product profile.

Susceptibility of its profit margins to volatile raw material prices: The raw material cost forms around 60%-70% of total cost structure of the 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. However, from the highs of around USD 600/MT, sulphur prices have now reached to a level of around USD 110/MT by end May 2023.
During FY22, its operating profitability moderated to 9.09% from 37.00% in FY21. Furthermore, the company reported losses at PBILDT level in FY23 owing to stabilization issues in the newly commenced plant under its subsidiary and continued higher prices of sulphur which could not be passed on to customers. Furthermore, Amal had taken shutdown (annual scheduled maintenance activities) of 28 days in Q1FY24 incurring expense of ₹1 crore which led to moderation in its performance during the quarter.

However, with a decline in sulphur prices in the current year and stabilization as well as ramp-up of operations of the new plant, the company is expected to register PBILDT margin in the range of 13%-14% going forward.

Risk associated with stringent pollution control norms: The 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. The company has been complying with the required pollution control norms and there have not been any adverse observations in the last many years.

Stabilization risk associated with recently concluded large size partly debt funded capex: Amal through its subsidiary ASCL has established manufacturing facility for sulphuric acid with an installed capacity of 300 TPD. The project is located in the premises of Amal (in Ankleshwar) and was completed during Q2FY23. The plant faced stabilization issues during FY23 which impacted its operating profitability. As indicated by the company's management, the plant has completed one year since it started operations and the company has been able to resolve all the technical issues with the plant currently running at almost full capacity utilization.
Amal is exposed to project stabilization risk and its ability to achieve envisaged scale of operations along with expected 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.

Applicable criteria

Rating Outlook and Credit Watch
Policy on default recognition
Manufacturing Companies
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Factoring Linkages Parent Sub JV Group
Consolidation
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

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 an installed capacity of 440 Tonnes Per Day (TPD) as on March 31, 2023. It has one wholly-owned subsidiary, ASCL.

Brief Financials of Amal – Consolidated (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (Prov.)
TOI	43.48	61.32	16.83
PBILDT	3.95	-5.60	0.11
PAT	1.11	-16.11	-2.65
Overall gearing (times)	1.44	0.51	NA
Interest coverage (times)	4.16	NM	NM

A: Audited; Prov.: Provisional; NA: Not available; NM: Not meaningful; Financials are classified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

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 the rated instruments/facilities: Please refer Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Instruments

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-Cash credit		-	-	-	4.00	CARE A+; Stable

Annexure-2: Rating history for the 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 2023-2024	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
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)Withdrawn (09-Aug-22)	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+; Stable (09-Aug-22)	1)CARE A+ (CE); Stable (21-Jan-22)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments / facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple

Annexure-5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. 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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