

Balaji Speciality Chemicals Limited

February 5, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	82.00	CARE A+; Stable	Assigned
Long-term / Short-term bank facilities	50.00	CARE A+; Stable / CARE A1+	Assigned
Long-term / Short-term bank facilities #	-	-	Withdrawn
Long-term bank facilities #	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Unsupported rating	Withdrawn
---------------------------	------------------

Note: Unsupported rating does not factor in explicit credit enhancement.

#CARE Ratings Limited (CARE Ratings) has withdrawn the 'CARE AA (CE); Stable/ CARE A1+ (CE) [unsupported rating: CARE A+/ CARE A1+]' ratings assigned to bank facilities of Balaji Speciality Chemicals Limited (BSCL) after the corporate guarantee extended by Balaji Amines Limited (BAL) was removed.

Rationale and key rating drivers

Ratings assigned to bank facilities of Balaji Speciality Chemicals Limited (BSCL) continues to derive strength from its strong parentage of Balaji Amines Limited (BAL), BSCL's strong market position as a sole domestic manufacturer of its niche speciality chemical products, steady growth in capacity utilization post commencement of its operations and healthy profitability margin of its import substitute products. Ratings also derive comfort from its strong financial risk profile marked by comfortable capital structure, debt coverage indicators along with its strong liquidity. Ratings also factors in favourable demand prospects and its internally funded sizable investment plans, which are expected to further strengthen its business profile.

However, the ratings are constrained by BSCL's limited track record of operations of around four years, import dependency for key raw materials, customer concentration risk, susceptibility to volatility associated with raw material prices and foreign exchange fluctuation risk and significant competition from imports in the domestic market.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations marked by total operating income (TOI) of more than ₹1,000 crore along with sustained PBILDT margin of more than 25%
- Significant diversification of customer and supplier base

Negative factors

- Large-size debt funded capital expenditure resulting in overall gearing of more than 0.75x on a sustained basis.
- Decline in PBILDT margin to less than 20% on a sustained basis.
- Deterioration of liquidity due to major dividend payout or elongation of working capital cycle.

Analytical approach: Standalone along with operational, managerial, and financial linkages with its parent, BAL. Post corporate guarantee withdrawal by BAL for BSCL's rated bank facilities, CARE Ratings has changed its analytical approach from credit enhancement to standalone assessment while factoring linkages with the parent.

Outlook: Stable

The 'Stable' outlook on the long-term rating of BSCL reflects CARE Ratings' expectation that BSCL's strong market position as the sole domestic manufacturer of import substitute niche speciality chemicals, shall result in sustenance of its strong financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Sole domestic manufacturer of niche speciality chemicals: BSCL is the sole domestic manufacturer of Ethylenediamine (EDA), Piperazine Anhydrous (PIP), Amino Ethyl Piperazine (AEP), Amino Ethyl Ethanol Amines (AEEA), and Diethylene Triamine (DETA). These products are primarily used in pharmaceutical and agrochemical industry whereby BSCL faces significant competition from imports in the domestic market and major global chemical manufacturers in the export markets. Exports contributed around 33% of BSCL's sales in FY23, underlining its product's export competitiveness. BSCL's EDA and DETA products are REACH certified which enable it to export these products to the European Union.

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

Also, the niche characteristics of these products, customer stickiness due to long product approval process, complex manufacturing process requiring high technical knowhow, stringent environmental regulations and BSCL's first mover advantage in Indian market, creates substantial entry barriers.

Healthy capacity utilization and profitability margins: BSCL's manufacturing facility has annual manufacturing capacity of 30,000 MT; its capacity utilization has rapidly improved, post production commencement in June 2019, to around 72% in FY23 (56% in FY22) resulting in total operating income of ₹797 crore and PBILDT margin of 35.68%.

BSCL undertook shutdown of around 90 days in August-November 2023 for debottlenecking activity at its plant, which is expected to enhance its installed capacity by 10-15%. Consequently, the company's capacity utilization declined to 22% resulting in total operating income of ₹196 crore in H1FY24. After witnessing exceptional sales realisation for its products in FY22-FY23, BSCL's PBILDT margin normalised to 28% in line with normalization of sales realization of its products. CARE Ratings expects PBILDT margin to remain between 24-26% in near-to-medium term.

Sizable investment plans: BSCL plans to manufacture around 12 new import substitute products, including EDA derivatives (forward integration) and Sodium derivatives (diversification) at an estimated capex of ₹750 crore and is expected to be completely funded through internal accruals in next 5-6 years in a phased manner. BSCL's business profile is expected to strengthen further with internally funded sizable expansion plans to manufacture high margin import substitute products.

Strong financial risk profile marked by comfortable capital structure and debt coverage indicators: BSCL rationalised its debt level significantly in FY23 on the back of healthy profitability and corresponding build-up of net worth to ₹366 crore as on March 31, 2023. Consequently, its overall gearing stood strong at 0.16x as on March 31, 2023, and 0.11x as on September 30, 2023 (0.88x as on March 31, 2022).

BSCL's debt coverage indicators improved significantly marked by below unity total debt/gross cash accruals and total debt to PBILDT in FY23 and H1FY24. Going forward also, BSCL's capital structure and debt coverage indicators are expected to remain strong as it is expected to fund its investment plans completely through internal accruals.

Favorable growth prospects: The demand for BSCL's speciality chemicals is closely linked with demand prospects of key end user industries viz. pharmaceuticals and agrochemicals, which contribute to around 70% of its sales. In H1FY24, agrochemical industry faced headwinds from subdued demand due to inventory destocking and substantial dumping by Chinese manufacturers. However, due to relatively stable domestic demand, domestic agrochemical industry is expected to witness a steady growth of 8-10% in the medium-term.

The domestic pharmaceuticals industry is expected to witness healthy growth in the medium-term supported by increase in product prices, product launches and healthy demand from key export markets.

Liquidity: Strong

BSCL's strong liquidity is marked by strong cash accruals against low term debt repayment obligations and free cash balance worth ₹118 crore as on September 30, 2023. BSCL has pre-paid part of its term debt in October 2023 and has a plan to pre-pay balance term debt in next few quarters. On the back of strong cash flow from operations, its utilization of fund based working capital limits was almost nil in last 12 months ended December 2023.

In August 2022, BSCL had filed a DRHP to raise ₹250 crore fresh equity capital and an offer for sale of its equity shares held by BSCL's existing shareholders. However, later BSCL cancelled its IPO plan in light of healthy accruals and surplus liquidity. Also, as per management, considering BSCL's improved financial risk profile, BAL has removed its corporate guarantee extended to BSCL's bank facilities, with the consent of BSCL's lenders.

Key weaknesses

Import dependency for key raw materials and customer concentration risk: Although BSCL has large number of domestic and overseas customers, its sale is largely concentrated with top five customers, which accounts for around 60-70% of its sales. BSCL completely imports its key raw material Mono Ethanol Amines from Saudi Arabia, Malaysia, and Thailand among others, where it has faced instances of supply disruption in the current financial year. Accordingly, diversification of supplier base to ensure uninterrupted supply of raw materials at competitive prices along with diversification of its customer base, will be a key rating monitorable.

Susceptibility to volatility associated with raw material prices and foreign exchange fluctuation risk: BSCL's profitability is susceptible to fluctuations in prices of its key raw material i.e. Mono Ethanol Amines whose prices are linked to crude oil prices which are inherently volatile. However, BSCL's fast inventory turnover and short-term customer contracts which allows it to periodically pass on raw material price increase to its customers, protect its profitability margins to an extent. Also, company completely imports its key raw material which constitutes around 90% of its raw material requirement, and hence, exposed to foreign exchange fluctuation risk. However, the risk is partially mitigated by natural hedge in the form of exports which contributes around 30% of its sales.

Applicable criteria

[Policy on Default Recognition](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial Sector Entities](#)

[Short Term Instruments](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Incorporated in 2010, BSCL is a 55% subsidiary of Balaji Amines Limited (BAL), a leading manufacturer of aliphatic amines in India. BSCL was incorporated to manufacture products such as Ethylenediamine (EDA), Piperazine Anhydrous (PIP), Amino Ethyl Piperazine (AEP), Amino Ethyl Ethanol Amines (AEEA), and Diethylene Triamine (DETA). BSCL is the sole domestic manufacturer whereby it substitute imports of these products in the country. The company commenced operations from June 2019, after successful trial runs and the receipt of various environmental clearances. BSCL's manufacturing facility is located at Solapur, Maharashtra with an installed capacity of 30,000 MTPA.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)
Total operating income	517.02	797.22	196.02
PBILDT	183.02	284.49	55.61
PAT	109.96	178.14	36.89
Overall gearing (times)	0.88	0.16	0.11
Interest coverage (times)	11.81	27.91	21.23

A: Audited, Prov.: Provisional; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	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	-	-	-	50.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	May 2026	32.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	50.00	CARE A+; Stable/ CARE A1+
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	May 2026	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	Withdrawn

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-Term Loan	LT	32.00	CARE A+; Stable	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	50.00	CARE A+; Stable	-	-	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	50.00	CARE A+; Stable / CARE A1+	-	-	-	-
4	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	1)CARE AA (CE); Stable (29-Nov-22)	1)CARE AA-(CE); Positive (05-Oct-21)	1)CARE AA-(CE); Stable (30-Dec-20)
5	Fund-based - LT-Cash Credit	LT	-	Withdrawn	-	1)CARE AA (CE); Stable (29-Nov-22)	1)CARE AA-(CE); Positive (05-Oct-21)	1)CARE AA-(CE); Stable (30-Dec-20)
6	Non-fund-based - LT/ ST-BG/LC	LT/ST*	-	Withdrawn	-	1)CARE AA (CE); Stable/ CARE A1+ (CE) (29-Nov-22)	1)CARE AA-(CE); Positive/ CARE A1+ (CE) (05-Oct-21)	1)CARE AA-(CE); Stable/ CARE A1+ (CE) (30-Dec-20)
7	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	Withdrawn	-	1)CARE A+/ CARE A1+ (29-Nov-22)	1)CARE A-/ CARE A2 (05-Oct-21)	1)CARE BBB+/ CARE A3+ (30-Dec-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Annexure-5: Lender detailsTo 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. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Name: Hardik Shah Director CARE Ratings Limited Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in
Relationship Contact Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Name: Krunal Modi Associate Director CARE Ratings Limited Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in
	Rohan Deshmukh Lead Analyst CARE Ratings Limited E-mail: rohan.deshmukh@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**