AksharChem (India) Limited

April 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.50 (Reduced from 34.00)	CARE A-; Stable	Revised from CARE A; Stable
Long-term / Short-term bank facilities	50.00	CARE A-; Stable / CARE A2+	Revised from CARE A; Stable / CARE A1
Short-term bank facilities	15.00	CARE A2+	Revised from CARE A1

Details of 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 continued moderation in its operating profitability and Return on Capital Employed (ROCE) to below 9% on a sustained basis impacting its debt coverage indicators. The profitability was severely impacted in FY23 (refers to the period April 1 to March 31) and H1FY24 on the back of adverse industry scenario in AIL's dye intermediates and pigments business leading to intermittent shut down of its 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 and to less than 1% during FY23. However, ratings take cognizance of revival in performance achieved in Q3FY24 after incurring losses for past four quarters, wherein performance is expected to improve in the medium term.

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, comfortable capital structure, 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 of AIL, however, continue to be 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 dyes 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 return on capital employed (ROCE).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant increase in scale of operations along-with revenue diversification
- Profit before interest, lease rentals, depreciation and tax (PBILDT) margin above 15% on a sustained basis by managing volatility associated with raw material prices and foreign exchange rates
- Improvement in ROCE above 15% on a sustained basis

Negative factors

- PBILDT margin and ROCE below 8% 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

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that AIL will continue to benefit from its established position in the dye intermediates industry along-with ramp up in precipitated silica volume while maintaining its existing capital structure in the absence of any major debt funded capital expenditure (capex) plans.

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

Detailed description of the key rating drivers
Key strengths

Experienced and resourceful promoters
AIL is promoted by Mrs. Paru M. Jaykrishna who has vast experience of 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.

Established export presence along with long standing relationship with its reputed customers
Being an export-oriented unit, AIL reported export sales of ₹202.37 crore which constituted around 62% of its total sales in FY23. 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.
As major export markets catered by AIL were experiencing inflationary pressure and a slowdown in demand with high channel inventory, the company has increased its focused in the domestic market. Further, entire sales of PPT silica are also in the domestic market only. Hence, the contribution from exports has reduced from earlier 70%-80% to total sales to 62% in FY23 and further to 50% in 9MFY24.

Comfortable leverage which is likely to sustain
AIL's capital structure remained comfortable marked by an overall gearing which improved from 0.18 times as on March 31, 2022 to 0.09x as on March 31, 2023. Its debt coverage indicators marked by Total debt/Gross Cash Accruals (GCA) moderated from 1.74x during FY22 to 2.08x in FY23 despite decrease in debt levels primarily due to moderation in its operating profitability. Its debt coverage indicators moderated significantly in current financial year i.e., during 9MFY24 owing to losses incurred upon prolonged sluggishness in the market. With improvement witnessed from Q3FY24, the debt coverage indicators are expected to improved going forward.
Despite volatility associated with the business, AIL's leverage and debt coverage indicators have 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 ₹100 crore was funded through qualified institutional placement proceeds of around ₹69 crore and internal accruals. However, in FY22, AIL availed ₹30 crore term debt towards reimbursement of its silica capex. AIL is undertaking further expansion of its PPT silica capacity by 6000 MTPA by H1FY25-end entailing capex of around ₹25 crore which is being partly funded through a term debt of ₹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 0.25x in the medium-term.

Liquidity: Adequate
Despite significant moderation in operating profitability and marginal cash losses reported in FY23, company's liquidity was supported by cash flow from operations of ₹39.47 crore registered in FY23. The company's liquidity witnessed temporary moderation in current financial year owing to net losses reported in 9MFY24 resulting in increased reliance on working capital debt to meet its repayment obligations and capex requirements. Going forward with marginal profits registered in Q3FY24 and further improvement expected from Q4FY24 onwards, the company is expected to generate healthy cash accruals vis-à-vis low term loan repayment obligations. The utilization of its fund-based working capital limits remained low at around 34% in the trailing 12 months ended February 29, 2024. Its operating cycle remained comfortable at 77 days in FY23 and current ratio remained healthy at 2.19x as on March 31, 2023. 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 0.09 times as on March 31, 2023.

Key weaknesses
Sustained low level of PBILDT margin and ROCE below 9%
The PBILDT margins of AIL have witnessed a downward trend owing to volatile margins in dye intermediates business over past five years coupled with high dependence on cyclical textile industry. The operating profitability of AIL stood below 9% over past two years ended FY23 and moderated significantly in 9MFY24 led by volatile 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. CARE Ratings expects PBILDT margin to improve from FY25 onwards with improvement witnessed in production levels from Q3FY24 indicating uptick in demand.
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 less than 1% in FY23.

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. In FY23, AIL derived 49% of its revenue from dye intermediates viz., VS (44%) and H-acid (5%) which primarily find applications in the textile industry. However, AIL has been gradually diversifying its revenue and end-user industry profile through sale of CPC green pigment (contributing 30%) which finds application in manufacturing of printing inks, plastics, paint, rubber and leather and PPT silica (contributing 21%) 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 44% in FY23, 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, PPT silica and H-acid.
Owing to improved market dynamics, the capacity utilization of H-acid plant which was shut down for large part of FY23, improved to 70% during 9MFY24.

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 ₹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, AIL was selling its precipitated silica to domestic rubber manufacturers which has resulted in marginal profitability from PPT silica business. The company has now received product approvals from major tyre manufacturers and is also undertaking capacity expansion of 6000 MTPA which is expected to be completed by H1FY25.
The ramp up of the capacity utilization stood slower than envisaged. In FY23, capacity utilization stood at around 68%. Post approvals from major tyre manufactures, the utilization levels improved to 82% in 9MFY24. Due to delay in stabilization and ramp-up of its silica operations coinciding with downturn in its existing dye intermediates and pigment business, its RoCE stood very weak at below 1% in FY23.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

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 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 manufacturing of precipitated silica (which has major application in tyre manufacturing) from July 2021. As on December 31, 2023, 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)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	380.34	334.68	220.26
PBILDT	31.72	15.41	1.07
PAT / (Net loss)	15.91	-0.94	-12.66
Overall gearing (times)	0.18	0.09	NA
Interest coverage (times)	14.38	4.79	0.40

A: Audited; UA.: Unaudited; NA: Not available; 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 of last three years: Please refer to Annexure-2

Covenants of rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	26.50	CARE A-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	50.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the 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	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	-	1)CARE A1 (20-Feb-23)	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (10-Nov-20) 2)CARE A1+ (01-Apr-20)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST	50.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (20-Feb-23)	1)CARE A+; Stable / CARE A1+ (06-Jan-22)	1)CARE A+; Stable / CARE A1+ (10-Nov-20) 2)CARE A+; Stable / CARE A1+ (01-Apr-20)
3	Fund-based - LT-Term Loan	LT	26.50	CARE A-; Stable	-	1)CARE A; Stable (20-Feb-23)	1)CARE A+; Stable (06-Jan-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

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

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 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.

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About us:
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