

AksharChem (India) Limited

May 14, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	26.50	CARE A- (RWD)	Placed on Rating Watch with Developing Implications
Long-term / Short-term bank facilities	50.00	CARE A- / CARE A2+ (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	15.00	CARE A2+ (RWD)	Placed on Rating Watch with Developing Implications

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the ratings assigned to bank facilities of AksharChem (India) Limited (AIL) on 'Rating watch with Developing Implications' following BSE announcement regarding outbreak of fire at AIL's Vinyl Sulphone (VS) plant (contributing to 44% of total operating revenue of FY23; refer to the period April 01 to March 31) in Mehsana, Gujarat resulting in disruption of production. Further, as per the announcement, there were no human injuries or casualties reported. As articulated by the management, the company has VS inventory of around 45 days and semi-finished goods inventory of around 15 days which can be outsourced for processing. While the company is yet to ascertain the amount of loss due to fire, the plant is adequately covered under insurance as indicated by company's management. CARE Ratings would await further developments and clarity pertaining to exact amount of loss due to fire, status of insurance claim and resumption of plant operations and shall take a view on the ratings once the impact of the same on the credit profile of AIL is clear.

Ratings 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 organised players of the Indian dyes/pigment industry on account of implementation of stricter pollution control norms.

However, ratings of AIL, continue to be tempered by its subdued performance in FY23 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. However, ratings take cognisance of revival in performance achieved in Q3FY24 after incurring losses for past four quarters. The ratings continue to further factor in moderate scale of operations with limited product diversity as compared to 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% by managing volatility associated with raw material prices and foreign exchange rates on a sustained basis
- 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
- Prolonged closure of affected plant's operations and/or significant delay in receipt of insurance claim thereby impacting liquidity position of the company

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

Analytical approach: Standalone

Detailed description of 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 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 such as Taiwan and Korea. AIL has a long-standing relationship with reputed export customers in both VS and Copper Phthalocyanine (CPC) green pigment business who consider AIL among 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 metric tons per annum (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 focus 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 0.18x 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 in 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., in 9MFY24 owing to losses incurred upon prolonged sluggishness in the market. Any significant deterioration in the debt coverage indicators post fire incident shall remain key rating monitorable. 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. It 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 utilise the sanctioned term loan amount towards expansion of PPT silica capacity.

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 FY24 owing to net losses reported in 9MFY24 resulting in increased reliance on working capital debt to meet its repayment obligations and capex requirements. The utilisation of its fund-based working capital limits remained low at around 34% in the 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. 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. Significant weakening of liquidity profile due to delay in resuming operations post fire or delay in receipt of insurance claim shall remain a key rating monitorable.

Key weaknesses

Sustained low level of PBILDT margin and ROCE below 9%

AIL's PBILDT margins 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. AIL's operating profitability 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

realisations. 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 stabilisation 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 to other large industry players which derive competitive edge due to their wide product range of dye intermediates, forward integration into manufacturing of dyes, optimisation 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%), catering 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 utilisation 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 and 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 stabilisation 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 utilisation 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 utilisation stood slower than envisaged. In FY23, capacity utilisation stood at around 68%. Post approvals from major tyre manufactures, the utilisation levels improved to 82% in 9MFY24. Due to delay in stabilisation 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 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 printing ink, plastic and paint. 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 7,800 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: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Annexure-2

Covenants of rated facilities: Annexure-3

Complexity level of various facilities rated: Annexure-4

Lender details: 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- (RWD)
Fund-based - LT/ST-EPC/PSC		-	-	-	50.00	CARE A- / CARE A2+ (RWD)
Non-fund-based - ST-BG/LC		-	-	-	15.00	CARE A2+ (RWD)

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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+ (RWD)	1)CARE A2+ (05-Apr-24)	-	1)CARE A1 (20-Feb-23)	1)CARE A1+ (06-Jan-22)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST	50.00	CARE A- / CARE A2+ (RWD)	1)CARE A-; Stable / CARE A2+ (05-Apr-24)	-	1)CARE A; Stable / CARE A1 (20-Feb-23)	1)CARE A+; Stable / CARE A1+ (06-Jan-22)
3	Fund-based - LT-Term loan	LT	26.50	CARE A- (RWD)	1)CARE A-; Stable (05-Apr-24)	-	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 rated facilities: Not applicable**Annexure-4: Complexity level of 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 detailsTo view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of 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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