Amal Limited

October 10, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Amal Limited 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, stabilisation of operations in its subsidiary viz. Amal Speciality Chemicals Ltd. (ASCL) leading to improved profitability and capital structure during FY24 and its adequate liquidity. However, the rating is constrained on account of its single product profile with small scale of operations, susceptibility of its profitability to volatile raw material prices and risks related to stringent pollution control norms.

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. The list of companies considered in consolidation as on March 31, 2024, are listed under **Annexure-6.**

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 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 mainly through its investing company Atul Finserv Limited Atul operates one of the largest integrated chemical complexes in India, with a well-diversified product portfolio of around 900 products and 400 formulations divided into two segments: life science chemicals (LSC) and performance and other chemicals (POC). These products cater to a variety of industries, including textiles, paints and coatings, adhesives, dyestuffs, agriculture, fragrances and flavors, cosmetics, personal care, tires, paper, plastics, pharmaceuticals, aerospace, composites, construction, and glass. Amal shares common management with Atul, which has extensive experience in the chemical business and strong financial risk profile. Furthermore, Atul has a strong track record of supporting its group companies.

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

Strategic location of Amal's plant in the vicinity of Atul's production plant leading to operational synergies with Atul

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 FY24, ~37% (PY: 41%) 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 as per agreement for committed off-take with Atul leading to operational synergies thereby improving the revenue of Amal.

Improved capacity utilisation post stabilisation of ASCL's plant

Amal has effectively increased its production capabilities through plant expansions, leading to higher capacity utilisation in FY24. While there was moderation in capacity utilisation in FY23 due to the new plant ramp-up, post-stabilisation, utilisation has improved, supported by strong demand from Atul Limited's aromatic division. In FY24, Amal achieved a capacity utilisation of 85.92%, up from 84.35% in FY23, and this is expected to improve further in FY25.

Steady improvement in company's financial risk profile

Amal maintains a strong financial position with minimal external debt. On a consolidated basis, the company's total debt decreased significantly in FY24 to Rs. 23.71 crore, down from Rs. 34.79 crore in FY23, resulting in an improved overall gearing ratio of 0.34x, compared to 0.51x the previous year. 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

The company's liquidity profile improved in FY24, with a significant increase in gross cash accruals compared to the previous year. The current ratio also strengthened with comfortable operating cycle. Moreover, the utilisation of its working capital limits has remained low, with unutilised bank lines sufficient to cover incremental working capital needs for the next 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 ₹86.09 crore in FY24. 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 utilisation and current prices, the company is expected to earn TOI of ~₹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 profitability to volatile key raw material prices

Sulphur is the primary raw material for Amal Limited's production of sulphuric acid and related downstream products, accounting for over 50% of the company's total cost structure. As a result, fluctuations in sulphur prices directly impact the company's margins. Between August 2020 and July 2024, sulphur prices exhibited significant volatility, peaking in May 2022 before declining sharply in mid-2023. This peak in prices led to increased raw material costs for Amal, which in turn squeezed its margins, as the company could not fully pass on these costs to its customers. With recent stabilisation of sulphur prices, Amal has experienced a decrease in raw material expenses, contributing to improved profitability and enhanced PBILDT margins. However, any future increase in sulphur prices could again put pressure on its margins, especially if product prices are not adjusted accordingly. Thus, the volatility of sulphur prices remains a critical factor influencing Amal's cost structure and overall profitability.

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.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

Incorporated in July 1974, Amal Limited is a publicly listed company and a subsidiary of Atul Limited. Amal is engaged in manufacturing bulk chemicals, including sulphuric acid, oleum, and their downstream products such as sulphur dioxide and sulphur trioxide at its facility in Ankleshwar, Gujarat, with an installed capacity of 440 TPD. These products are utilised across industries, including dyes, fertilizers, personal care, petrochemicals, pharmaceuticals, and textiles.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	61.32	86.09	20.58
PBILDT	-5.60	15.37	3.17
PAT	-16.11	1.70	0.45
Overall gearing (times)	0.51	0.34	NA
Interest coverage (times)	NM	4.12	4.46

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available consolidated financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

List of all the entities consolidated – Annexure-6

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE A+; Stable

Annexure-2: Rating history for 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	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (21-Jan-22) 2)Provisional CARE AA+ (CE); Stable (16-Aug-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)
3	Fund-based - LT-Cash Credit	LT	4.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Sep-23)	1)CARE A+; Stable (09-Aug-22)	1)CARE A+ (CE); Stable (21-Jan-22)

LT: Long term

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

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Amal Speciality Chemicals Limited	Full	Wholly owned subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: +91-22-6754 3657 E-mail: arti.roy@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.

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