CareEdge RATINGS

Madhu Silica Private Limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	200.00 (Enhanced from 125.00)	CARE AA+; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Madhu Silica Private Limited (MSPL) continue to derive strength from vast experience of its promoters in the precipitated silica industry, established track record of operations with a leadership position in the domestic market, long-standing association with a reputed clientele in the domestic and international markets, healthy operating profit margin, strong financial risk profile coupled with management's conservative policy towards usage of debt, and superior liquidity. Ratings also take cognisance of stable demand outlook for precipitated silica given application in diverse end-use industries, which augurs favourably for the overall business profile of the company.

The long-term rating, however, continues to be constrained due to its limited product mix, leading to relatively moderate scale of operations, albeit diversified end-uses of its product, susceptibility of its profitability to foreign currency exchange rate fluctuations, and raw material price volatility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant growth in scale of operations on a sustained basis while diversifying its product profile and clientele and maintaining its healthy profitability, debt coverage, and leverage indicators.

Negative factors

- Moderation in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin below 15% on a sustained basis.
- Deterioration in net debt/gross cash accruals (GCA) beyond 1.50x on a sustained basis.
- Any regulatory or management changes adversely affecting its operations.
- Substantial reduction in liquidity available with the company.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that MSPL will continue to benefit from its leadership position in the domestic precipitated silica industry and a prominent position among global players, which is expected to ensure sustained comfortable financial risk profile in the medium term.

Detailed description of key rating drivers:

Key strengths

Leadership position in the domestic precipitated silica market

MSPL is the largest player in domestic precipitated silica industry, with an established track record of around five decades. The company has an installed capacity of 270,000 metric tonne per annum (MTPA) as on March 31, 2024, at is facility in Bhavnagar, Gujarat, for manufacturing over 50 different grades of precipitated silica. The company has a research and development (R&D) unit at Bhavnagar, Gujarat, recognised by the Department of Scientific and Industrial Research (DSIR), Government of India, since 1997. MSPL is also registered with the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which is mandatory for selling chemicals in European Union (EU) countries. Besides, the company has the advantage of ease in availability of key raw materials, sodium silicate glass (manufactured from soda-ash and silica) and sulphuric acid. Backed by its leadership position, the company has been able to earn strong PBILDT margin in the range of 19-27% over the past several years, with a healthy return on capital employed (ROCE) which stood at ~38% in FY24.

The company's overall affairs are managed by Ramesh Shah, Chairman, and his son, Darshak Shah, Managing Director, having vast experience in the industry. Although the decision making in the company is a family-centric process, the top management is

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

competent and has vast experience in their respective areas of operations and are supported by a team of professionals to look after the day-to-day aspects of the organisation.

Reputed clientele across diverse end-use industries

Precipitated silica finds applications across diverse end-user industries, which lends stability to the overall business operations and profitability margin of the company. Diversified end-user industries mitigate adverse impact of a slowdown in a particular end-use industry segment. In FY24, revenue contribution from tyre segment stood at 35%, oral healthcare (25%), footwear and rubber (11%), free flow in food (10%), paint and paper (8%), detergent (2%), and other industries. The company also sells aluminosilicates to the paint and paper industries. The company has healthy geographical diversification with domestic and export sales mix at 57% and 43%. Even in exports, the company has presence across the world at various locations, including the key markets of Asia, Europe, and the US. Geographical diversification mitigates any impact of slowdown in particular geography.

MSPL enjoys an established relationship with reputed clientele, including Unilever Plc, Hindustan Unilever Limited, Colgate Palmolive, Continental Tyre, Ceat Tyres, MRF, Goodyear, Apollo Tyres, Asian Paints, and GlaxoSmithKline (GSK), among others – all leading players in their respective industries. The company has a long association of over three decades with the Unilever group. The company has also added new customers in both, the domestic and international markets, in the pharmaceutical and tyre industries in the last few years. CARE Ratings believes the company shall continue to benefit from its established business relationships with the reputed clientele across the key end-user industry segments.

Satisfactory operating performance

MSPL's revenue declined by 9% yoy in FY24, led by 13% yoy decline in realisation on the back of pass through of decline in raw material prices. However, volumes growth of 6% yoy partially offset the decline in the overall revenue. Notwithstanding the decline in revenue, PBILDT margin improved marginally to 25.98% in FY24 from 24.74% in FY23 supported by decline in operating expenses including power & fuel cost and freight cost, which had witnessed increase in the last year. The PAT margin stood 24.49% in FY24 (FY23: 20.70%) supported by strong non-operating income comprising largely of income from its large investments. GCA stood at ₹418 crore in FY24 (FY23: ₹381 crore). In H1FY25, per provisional results, the company reported a revenue of ₹790 crore (H1FY24: ₹748 crore). CARE Ratings believes operating performance to remain satisfactory marked by modest growth in scale of operations on the back of steady growth in the demand, while PBILDT margin is likely to continue to remain healthy.

Strong financial risk profile

MSPL's financial risk profile is marked by strong net worth and nil debt. Healthy accretion of profits to net worth over the years has resulted in strong net worth base of ₹1,885 crore as on March 31, 2024. Healthy cash flow from operations and absence of major debt-funded capex has resulted in nil fund-based borrowings over the years. The company continued to have nil fund-based borrowings as on March 31, 2024. CARE Ratings believes overall financial risk to continue to remain strong in the medium term in absence of planned debt-funded capex.

Stable demand outlook for precipitated silica industry

Outlook for precipitated silica business is envisaged to remain stable, on the back of the steady demand prospects from its diverse user industries such as oral healthcare (mainly gel and whitening toothpaste), tyre, footwear, fertilisers, paints, cosmetics, pharmaceuticals, and food, among others. Silica filler helps to reduce the tyre's rolling resistance, leading to a decrease in a motor vehicle's fuel consumption, and thereby, a reduction in consumption of petroleum and lower CO_2 emissions. The demand for 'green tyre' also augurs well for the long-term prospects of the company. CARE Ratings believes growth in electric vehicles (EVs) in the medium term will drive the growth going forward. Technical competency, stringent quality standards, and a lengthy product approval process from clients also act as entry barriers to the industry and provide a competitive edge to MSPL in the domestic precipitated silica industry.

Liquidity: Strong

MSPL's liquidity is marked by strong accruals against no term debt repayment obligations and presence of investments of ₹1,549 crore as on September 30, 2024, invested across quoted and unquoted instruments. With nil outstanding fund-based borrowings as on March 31, 2024, the issuer has sufficient gearing headroom to raise additional debt. MSPL largely utilises its non-fund-based limits to meet its import requirements. The current ratio stood healthy at 2.39x as on March 31, 2024. The company does not have major capex in the near term and the maintenance capex and incremental working capital requirement is expected to be funded through internal accruals with no major reliance on borrowings.

Key weaknesses

Raw material price volatility and foreign currency fluctuation risk

Sodium silicate and sulphuric acid are MSPL's major raw materials, prices of which have witnessed sharp volatility over the last few years. The company's operating performance remains susceptible to raw material price volatility. Nonetheless, backed by established and industry leading position, the company has been able to pass on the increase in input costs to its customers, which partially offsets the risk. The company's ability to continuously pass on the increase in input costs to its customers going forward will be crucial.

MSPL also remains inherently exposed to foreign currency fluctuation risk to a certain extent as it earned ~43% of its total sales through exports in FY24 while majority procurement of the raw materials and spare parts is done from the domestic market. Generally, MSPL enters forward contract covering almost 40-50% of its foreign currency exposure and the balance exposure is taken care of by the utilisation of its working capital limits in the form of Packing Credit in Foreign Currency (PCFC). This partially mitigates the foreign currency risk. There has been no major adverse impact of foreign currency fluctuations on MSPL's profitability in the recent past, despite the significant volatility in foreign currency exchange rates.

Relatively moderate scale of operations compared to major global competitors

Although MSPL is the largest player in the domestic precipitated silica market with silica sales of ₹1,503 crore in FY24 (FY23: ₹1,644 crore), its limited product-mix (despite diverse end-use applications) has resulted in relatively moderate scale of operations when compared to its global competitors such as Evonik and Solvay groups, which operate on a large scale across diverse geographies with multi-location manufacturing facilities and presence in multiple specialty chemical products. MSPL's ability to significantly increase its scale of operations in line with its global peers in the precipitated silica segment and ensure greater geographical and product diversification shall be the key rating sensitivity going forward.

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

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

Incorporated in 1971 at Bhavnagar, Gujarat, MSPL is promoted by Ramesh Shah, Chairman, who has over five decades of experience in the precipitated silica business. As on March 31, 2024, the promoter group, Ramesh Shah, his family members, and the family-formed Hindu Undivided Family (HUF) held 100% equity stake in MSPL. MSPL is currently the largest manufacturer of precipitated silica in India manufacturing over 50 different grades, which find applications in industries such as oral healthcare (mainly gel and whitening toothpaste), tyre, footwear and rubber, fertilisers, paints, cosmetics, pharmaceuticals, and food, among others. It also manufactures small quantities of alumino silicates, which find applications in the paper and the paint industries.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	1,644.19	1,502.86	790.25
PBILDT	406.81	390.40	252.00
PAT	340.34	368.06	279.58
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	408.20	552.11	600.00

A: Audited UA: Unaudited; NA: Not available; 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: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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/ ST-Packing credit in foreign currency		-	-	-	175.00	CARE AA+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	25.00	CARE AA+; Stable / CARE A1+

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/ ST-Packing credit in foreign currency	LT/ST	175.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (13-Nov-23)	1)CARE AA+; Stable / CARE A1+ (18-Nov-22) 2)CARE AA+; Stable / CARE A1+ (06-Apr-22)	1)CARE AA+; Stable / CARE A1+ (24-Nov-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	25.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (13-Nov-23)	1)CARE AA+; Stable / CARE A1+ (18-Nov-22) 2)CARE AA+; Stable / CARE A1+ (06-Apr-22)	1)CARE AA+; Stable / CARE A1+ (24-Nov-21)

LT/ST: Long term/Short 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/ ST-Packing credit in foreign currency	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

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 clarification.

Contact Us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754-3453 E-mail: ranjan.sharma@careedge.in Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754-3591 E-mail: hardik.shah@careedge.in Rabin Bihani Associate Director **CARE Ratings Limited** Phone: +91-22-6754-3592 E-mail: Rabin.bihani@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 detailed Rationale Report and subscription information, please visit www.careedge.in