AksharChem (India) Limited

April 01, 2025

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	39.00 (Enhanced from 26.50)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	50.00	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	15.00	CARE A2+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of AksharChem (India) Limited (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 established presence in export markets, long-standing relationship of over 20 years with reputed international clientele, good prospects for organised players of the Indian dyes/pigment industry considering implementation of stricter pollution control norms and comfortable capital structure. Ratings take cognisance of improvement in operating performance in 9MFY25 marked by profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 7.27%, which had witnessed significant moderation in FY24 (0.50%) owing to improved industry scenario for dye intermediates and pigment business and sustained growth in PPT silica sales volumes.

However, ratings continue to remain constrained by weak return indicators considering weak operating performance in the past due to adverse industry scenario in AIL's dye intermediates and pigments business leading to intermittent shut down of its plants and delay in realisation of adequate returns from its PPT silica project. Ratings further remain constrained considering moderate scale of operations with limited product diversity compared to other large-sized and more integrated industry players resulting in high volatility in its operating profitability. AIL's profitability is susceptible to raw material price volatility and fluctuations in foreign exchange rates and competition from many domestic players in the dyes and dyes intermediates market and from China. The company also remains exposed to project execution risk for its proposed solar power project and stabilisation risk pertaining to expanded capacity of PPT Silica.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant increase in scale of operations and revenue diversification.
- PBILDT margin above 15% on a sustained basis by managing volatility associated with raw material prices and foreign exchange rates and improvement in its total debt (TD)/PBILDT to below 2x on a sustained basis.
- Improvement in return on capital employed (ROCE) above 15% on a sustained basis.

Negative factors

- PBILDT margin below 8% on a sustained basis.
- Deterioration in overall gearing beyond 0.75x and weakening of debt coverage indicators on a sustained basis.
- Adverse change in government policy significantly affecting AIL's operations.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes AIL will continue to benefit from its established position in the dye intermediates industry and increasing focus in precipitated silica business, while maintaining its comfortable capital structure.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters

AIL is promoted by Paru M Jaykrishna who has three decades' experience in the chemical industry (mainly dye-intermediates and pigments). Paru Jaykrishna (chairperson and managing director) and Munjal Jaykrishna (joint managing director and chief

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

executive officer) have been instrumental in the company's business growth over the years. Promoters are also supported by a team of experienced professionals.

Established export presence and long-standing relationship with its reputed customers
AIL exports its products to over 20 countries and has been one of the largest exporters of Vinyl Sulphone (VS) from India with ~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. AIL has a long-standing relationship with reputed export customers in 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, Authorisation and Restriction of Chemicals (REACH) registration for exports up to 1,000 metric tons per annum (MTPA) in the European Union.
Exports contributed ~50% of AIL's total sales in FY24. Contribution from exports has reduced from earlier contribution of 70%-80% of total sales to ~50% in FY24 and further to ~43% in 9MFY25 considering increasing focus on domestic sales of dye intermediates amidst demand slowdown in overseas geographies, and increasing revenue contribution from PPT silica, which has sales entirely in the domestic market. PPT Silica sales accounted for ~24% of the total sales in 9MFY25.

Comfortable leverage which is likely to sustain
AIL's capital structure remained comfortable marked by an overall gearing of 0.20x as on March 31, 2024 (March 31, 2023 – 0.09x). Despite volatility associated with the business, AIL's leverage has remained comfortable over the last many years due to management's conservative stance on availing significant debt. Initial capex for the greenfield PPT silica manufacturing facility of ~₹100 crore was funded through qualified institutional placement proceeds of ~₹69 crore and internal accruals. However, in FY22, the company availed ₹30 crore term debt towards reimbursement of its silica capex. The company has undertaken further expansion of the PPT silica capacity by 6000 MTPA with a capex of ~₹37 crore, which has been funded through a term debt of ₹10 crore and balance through internal accruals. The company has envisaged availment of term debt of ₹17 crore in FY26 for its solar power project capex. Despite such availment of debt, overall gearing is likely to remain comfortable at ~0.25x in FY26.

Liquidity: Adequate

The company's liquidity moderated in FY24 owing to net losses 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 further increased in the current fiscal year owing to cost towards restoration of plant post fire incidence, increase in working capital requirement towards converting its semi-finished goods inventory to finished goods on job work basis in interim period, while internal accruals were deployed towards funding of PPT silica expansion project. The utilisation of fund-based working capital limits stood at ~70% in the 12 months ended January 31, 2025. Receipt of insurance claim of ~₹7 crore in the near term shall aid in reducing working capital utilisation.
Its operating cycle remained comfortable at 79 days in FY24, and current ratio remained healthy at 1.56x as on March 31, 2024. AIL's capex requirements are moderate and are expected to be partly funded through term debt (already tied-up). With a comfortable overall gearing of 0.20x as on March 31, 2024, the company has sufficient gearing headroom to raise funds. The company has already repaid its entire term debt repayment obligations for FY25. Going forward, the company's cash accruals is expected to be adequate to meet its debt repayment obligation of ~₹10 crore annually.

Key weaknesses

Weak ROCE and debt protection metrics despite improvement witnessed in 9MFY25
AIL's ROCE moderated sustainably over the years from 20.34% in FY18 to less than 1% in FY23, which further turned negative in FY24 owing to weakness in the dye intermediates business amidst global slowdown and delay in commencement, stabilisation and ramp-up of the greenfield PPT silica project. PBILDT margins also moderated sustainably from ~10% in FY21 to 0.5% in FY24 led by volatile input prices, sluggish demand from the textile industry and stiff competition from other players limiting the company's ability to increase the prices. Consequently, the company reported cash losses in FY24. Increase in borrowings, amidst weak operating performance led to substantial moderation in debt coverage indicators in FY24. Interest coverage declined to 0.40x in FY24 (FY23: 4.79x; FY22: 14.38x).
However, PBILDT margin recovered in 9MFY25 to 7.27% against 0.49% in 9MFY24. Consequently, the company reported gross cash accruals (GCAs) of ₹14.64 crore in 9MFY25 against net cash losses in 9MFY24. Healthy operating performance is considering favourable product realisations, improvement in capacity utilisation levels considering inventory restocking and better absorption of fixed costs given increase in scale of operations. The capacity utilisation of H-acid plant, which was shut down for a large part of FY23, improved to 85% in 9MFY25, while that of CPC green and PPT Silica plant stood at 69% and 99%, respectively. For VS, this stood low at 55% in 9MFY25, owing to shut down of plant due to fire incident. PBILDT interest coverage improved and stood

at 4.76x in 9MFY25 while TD/PBILDT stood moderate at 2.55x owing to higher working capital borrowings to fund its business operations.
CARE Ratings expects PBILDT margin to continue to improve in FY26 considering expectations of continued favourable realisations and uptick in demand for the dye intermediates and increase in the volume sales of higher margin PPT Silica with commencement of expanded facility in April 2025.

Relatively moderate scale of operations and its limited revenue diversity
AIL's total operating income (TOI) at ₹302 crore in FY24 (FY23: ₹335 crore) continued to remain moderate compared to other large industry players which derive competitive edge due to their wide product range of dye intermediates, forward integration in manufacturing dyes, optimisation of effluent handling cost and relatively more stable PBILDT margins. In FY24, AIL derived 49% revenue from dye intermediates, VS (38%) and H-acid (11%) 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 printing inks, plastics, paint, rubber and leather and PPT silica (contributing 21%) which caters rubber and tyre industries.
Although, the contribution of VS segment to AIL's net sales declined from 66% in FY18 to 38% in FY24, 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. Expected commencement of additional capacity of PPT Silica capacity from April 2025, is expected to diversify its revenue going forward.

Susceptibility of profitability to raw material price volatility 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, for PPT silica it is sodium silicate. AIL procures majority its raw materials from the domestic market and largely within Gujarat. Most 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. As AIL sources majority raw materials from the domestic market while exports accounts for half of its total sales, profitability is also susceptible to risk associated with fluctuations in foreign exchange rates. However, the company has a policy of hedging its entire foreign currency exposure through forward contracts which largely mitigate the risk.

Exposure to project related risk
The company has undertaken capacity expansion of silica plant by 6,000 MTPA, which has been completed at total cost of ₹37 crore, against earlier envisaged cost of ₹25 crore. Increase in the cost is mainly due to additional melter and warehouse related expenses. Increased cost has been funded through internal accruals, while term debt component for funding of project continued to remain at ₹10 crore. The company is currently operating its existing silica plant at ~99% utilisation. The company expects to commence commercial production of expanded capacity from April 2025 against earlier estimate of December 2024. The term debt repayments for term loan availed for this capex is also expected to commence from April 2025. Although capex has been largely concluded, the company remains exposed to project stabilisation risk. The risk is partially mitigated, considering the company has received product approvals from major tyre manufacturers in FY24 for its existing available PPT silica capacity. Since the project is envisaged to support growth in scale, revenue diversity and greater stability of operating profitability margin for AIL, ramping up of its capacity on a timely manner remain crucial.
AIL plans to incur capex of ~₹23 crore in FY26 towards setting up a solar power project of 8.1 MW at its manufacturing facility at Chhatral and Dahej. The project would be funded through debt of ₹17 crore and this is expected be completed by end FY26. The project is expected to reduce the power cost and support improvement in the PBILDT margin. Thus, timely completion and improvement in PBILDT margin shall remain important.

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 and petrochemicals	Dyes and pigments

Incorporated in 1989, AIL is promoted by Paru M Jaykrishna who is also the promoter of Asahi Songwon Colors Limited (ASCL). AIL was initially engaged only in manufacturing 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 Honourable 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 in manufacturing H-acid (a dye intermediate used as a raw material for manufacturing reactive dyes) from September 2018 and precipitated silica (which has major application in tyre manufacturing) from July 2021. As on December 31, 2024, 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)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total operating income	334.68	302.05	255.53
PBILDT	15.41	1.50	18.57
PAT	-0.94	-18.68	3.38
Overall gearing (times)	0.09	0.20	0.24
Interest coverage (times)	4.79	0.40	4.76

A: Audited UA: Unaudited; Financials are 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 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	March, 2032	39.00	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 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	Non-fund-based - ST-BG/LC	ST	15.00	CARE A2+	1)CARE A2+ (28-Aug-24) 2)CARE A2+ (RWD) (14-May-24) 3)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-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (28-Aug-24) 2)CARE A- / CARE A2+ (RWD) (14-May-24) 3)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	39.00	CARE A-; Stable	1)CARE A-; Stable (28-Aug-24) 2)CARE A- (RWD) (14-May-24) 3)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 instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 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 clarifications.

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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.

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