

AksharChem (India) Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-Term/Short-Term Bank Facilities	40.00	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-Term Bank Facilities	6.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	46.00 (Rupees Forty Six Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the 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 industry with focused approach on export markets, long standing relationship of more than a decade with reputed international clientele,

stable operating performance of its CPC green pigment division and improved growth prospects for organized players of the Indian dyes and dye-intermediate industry on account of the stricter pollution control norms in China. The ratings also continue to take into consideration the sound financial risk profile of the company marked by stable total operating income (TOI) during FY18 (refers to the period from April 01 to March 31), comfortable leverage and strong debt coverage indicators during FY18 and 9MFY19 (refers to the period from April 01 to December 31); albeit with moderation in the operating (PBILDT) margins of the company. Further, its liquidity also remained strong as evident from unencumbered liquid investments. The ratings also take note of stabilization of the recently completed CPC green pigment expansion facility and new H-acid plant.

The long term rating of AIL is, however, tempered by its relatively moderate scale of operations with limited product diversity as compared to other large sized and more integrated industry players, susceptibility of its profitability to volatility in raw material prices as witnessed during FY18 and 9MFY19, foreign exchange fluctuation risk on export sales and competition from various large players as well as China in the dyes and dyes intermediate industry. The ratings are further constrained by inherent implementation and stabilization risk associated with its large-sized precipitated silica project.

Going forward, the ability of AIL to complete its on-going precipitated silica project within envisaged time and cost parameters while generating envisaged returns thereof and thereby significantly increase its scale of operations through a more diversified product offering shall remain the key rating sensitivity. Further, its ability to increase and ensure greater stability of its healthy operating profitability by managing volatility associated with raw material prices and foreign exchange rates while ensuring continued compliance with prevailing pollution control norms will also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths:

Experienced and resourceful promoters: AIL is promoted by the Jaykrishna family of Ahmedabad who have vast experience of over two 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.

Export focused business along with long standing relationship with its reputed customers: Being an export-oriented unit, AIL reported export sales of Rs.225.42 crore which constituted around 85% of its total sales during FY18. AIL is the largest exporter of Vinyl Sulphone (VS - a dye intermediate used mainly for manufacturing of reactive dyes) from India with almost 38%-40% share in India's total exports of VS. AIL produces high quality, non-cancerous 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 business who consider AIL amongst their "Preferred Supplier". AIL's CPC green division has also obtained REACH registration for exports upto 1,000 metric tonne per annum in the European Union. AIL has continued to report healthy capacity utilizations for both its VS and CPC Green manufacturing plants during FY18 and 9MFY19.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Sound financial risk profile marked by stable operating income, low leverage and comfortable debt coverage indicators; albeit with moderation in operating profitability during FY18 and 9MFY19: The total operating income (TOI) of AIL registered a modest y-o-y growth of 7% during FY18 to Rs.266.15 crore. Despite healthy volume growth of VS, stabilization of the prices of VS led to stable TOI during FY18. During FY17, clampdown on the production in China led to surge in the prices of VS leading to exceptional PBILDT margins of 31.36% during FY17. However, subsequent stabilization of the prices of VS resulted into moderation in the operating profitability to 16.49% during FY18. Correspondingly, gross cash accruals of the company also declined to Rs.31.84 crore during FY18 as against gross cash accruals of Rs.57.28 crore during FY17. Generation of healthy cash accruals from operations led to zero outstanding debt as on March 31, 2018 leading to comfortable capital structure and healthy debt coverage indicators. During 9MFY19, AIL reported TOI of Rs.246.07 crore. Higher raw-material prices led to further moderation in operating margins to 13.17% during 9MFY19. However, debt coverage indicators continued to remain healthy during 9MFY19 on account of the negligible outstanding debt as on December 31, 2018.

Stabilization of the recently completed CPC green expansion facility and the new H-acid plant: The CPC green expansion was completed during Q4FY18 with enhanced capacity. The enhanced capacity was optimally utilized during 9MFY19. Further, H-acid plant with capacity of 1,200 MTPA also commenced operations during September 2018. After initial teething problem, the H-acid plant stabilized during January-February 2019. Going forward AIL's ability to generate envisaged benefits from the capex through diversification of its revenue profile shall remain crucial from the credit perspective.

Stricter regulatory landscape pertaining to pollution control norms benefiting the organized integrated players; albeit threat from China persists: China is the largest producer of dyes and dyes intermediate in the world followed by India with around 17% share in global capacity. Cheaper imports of dye intermediates from China and competition within domestic manufacturers had impacted the profitability of Indian players till FY13. Nevertheless, structural changes in environmental regulations in China have improved cost competency and sales volume of domestic players while reducing imports of dyes intermediates. India continued to remain net exporter of VS with increasing export volumes during the past two years ended March 31, 2018. Curtailment of some production in China had led to spike in the prices of VS during FY17. However, the same stabilized during FY18. The prices of VS shall continue to remain stable notwithstanding disruption in production in China. Stricter pollution control norms in India has also benefited organized players like AIL which follow processes like reverse osmosis, multi effect evaporation and brine system to ensure minimum waste generation. Although threat of China persists on account of its large capacities in dyes intermediate product, improved capital structure of the major industry players is expected to result in strong resilience for the domestic dyes and dyes intermediate players.

Liquidity analysis

AIL has a strong liquidity position marked by zero outstanding debt levels and healthy cash accruals. Furthermore, parking of proceeds from its earlier qualified institutional placement (QIP) into liquid investments has resulted in unencumbered cash and cash equivalents of Rs.67.31 crore as on March 31, 2018 in the form of quoted equity investments, mutual funds and cash and bank balance. Liquidity is further underpinned from the low utilization of fund based working capital limits for the past twelve months ended December 31, 2018. In addition, operating cycle of the company continued to remain lean and current ratio of the company remained healthy at 3.26 times during FY18.

Key Rating Weaknesses:

Relatively moderate scale of operations and limited revenue diversity: AIL's scale of operations, continued to remain moderate as compared to other large industry players which derive competitive edge due to their wide product range in dyes intermediates, forward integration into manufacturing of dyes, optimization of effluent handling cost and relatively more stable PBILDT margins. For AIL, VS still continues to be the major driver of the revenue followed by sales of CPC Green pigment.

During FY18, VS and CPC Green pigment constituted approximately 68% and 32% respectively of AIL's net sales. As AIL has presence in few products with major focus on exports i.e. VS in dye intermediate business and CPC green in pigment business, its limited product diversity in comparison to the overall dyes and dyes intermediate/pigment market results in relatively moderate scale of operations. Commencement of the operations of H-acid plant is expected to provide some product diversity going forward. However, generation of the envisaged benefits from the same in terms of scaling up of operations shall remain crucial from the credit perspective.

On-going capital expenditure in speciality chemicals i.e. precipitated silica: AIL is undertaking a project to enter new business of speciality chemicals by setting up a plant for the production of precipitated silica with capacity of 10,000 MTPA at the cost of Rs.75.00 crore to be funded entirely through internal accruals and QIP funds. AIL has incurred approximately Rs.35.00 crore towards the project and the said capex is behind the schedule and is now expected to be completed by Q3FY20 as against earlier timeline of March 2019. Furthermore, AIL has also recruited experienced professionals for managing its precipitated silica business. Nevertheless, AIL is exposed to inherent implementation and stabilization risks associated with such large size projects especially in precipitated silica business wherein AIL has no prior

experience. However, once completed and stabilised, the said project is envisaged to result in significant increase in scale, revenue diversity and greater stability of operating profitability margins for AIL.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates: AIL's main raw materials include acetanilide, Chlorosulphonic acid and ethylene oxide which together comprised nearly 49% of its total cost of raw material consumption for FY18. AIL procures majority of its raw material from the domestic market and largely from within Gujarat. For CPC Green pigment division, major raw material is CPC Blue Crude. Most of the raw materials (used for dyes) 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 are 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.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Rating](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology Manufacturing Companies](#)

[Financial Ratios-Non Financial Sectors](#)

About the Company

Incorporated in 1989, AIL is promoted by the Jaykrishna family of Ahmedabad (Gujarat) who are also the promoter family of Asahi Songwon Colors Ltd (ASCL). AIL was initially engaged in manufacturing of VS - a dye intermediate which is used as a raw material for manufacturing of reactive dyes that find major application in the cotton textile industry. However, with effect from April 01, 2014, as per the scheme of arrangement approved by the Honorable High Court of Gujarat, the Green pigment (CPC Green) division of ASCL has been merged into AIL. Green pigment mainly finds application in manufacturing of printing inks, plastics and paint. As on December 31, 2018, AIL had an installed capacity of 7,800 Metric Tonnes Per Annum (MTPA) for manufacturing of VS, 2,400 MTPA for manufacturing of CPC Green and 1,200 MTPA for manufacturing of H-acid.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income (TOI)	248.80	266.52
PBILDT	78.03	43.94
PAT	52.92	30.62
Overall Gearing (times)	0.23	0.00
Interest coverage (times)	25.83	29.52

A: Audited

As per unaudited results for 9MFY19, AIL reported total operating income (TOI) of Rs.246.07 crore (9MFY18: Rs.195.08 crore) with profit after tax (PAT) of Rs.19.66 crore (9MFY18: Rs.25.79 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure - 2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also

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Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	6.00	CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	40.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	6.00	CARE A1+	-	1)CARE A1+ (02-Jan-18)	1)CARE A1+ (09-Jan-17)	1)CARE A1 (25-Feb-16)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	40.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Jan-18)	1)CARE A+; Stable / CARE A1+ (09-Jan-17)	1)CARE A / CARE A1 (25-Feb-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (02-Jan-18)	1)CARE A+; Stable (09-Jan-17)	1)CARE A (25-Feb-16)

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CIN - L67190MH1993PLC071691