AksharChem (India) Limited

October 25, 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 focus on export markets, long standing relationship of more than 20 years with reputed international clientele, stable operating performance of its CPC green pigment division and good prospects for organized players of the Indian dyes and dye-intermediate industry on account of implementation of stricter pollution control norms & Goods and Services Tax (GST) Act. The ratings also take into consideration growth in its total operating income (TOI) during FY19 (refers to the period from April 01 to March 31) along with its comfortable leverage and strong debt coverage indicators during FY19 and Q1FY20 (refers to the period from April 01 to June 30) and strong liquidity marked by very low utilization of fund based working capital limits. The ratings also take note of improvement in capacity utilization of the new H-acid plant & expanded capacity of CPC Green post their stabilization.

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 resulting in high volatility in its operating profitability, susceptibility of its profitability to volatility in raw material prices as witnessed during FY19 and Q1FY20, foreign exchange fluctuation risk on export sales and competition from various large domestic players in the dyes and dyes intermediate industry along with competition from China in dye-intermediates business which has resulted in moderation in its operating profitability (PBILDT) margin during FY19 and Q1FY20. The ratings are further constrained by inherent implementation and stabilization risk associated with its large-sized precipitated silica project.

Rating Sensitivities

Positive sensitivities

- Significant increase in scale of operations along-with revenue diversification
- PBILDT margin above 18% on a sustained basis by managing volatility associated with raw material prices and foreign exchange rates
- Improvement in ROCE above 25% on sustained basis

Negative sensitivities

- PBILDT margin below 10% on a sustained basis
- ROCE below 10% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times on sustained basis
- Significant cost and/or time over run in implementation of its ongoing precipitated silica project resulting into weakening of debt coverage indicators (deterioration of TD/GCA beyond 3x)
- Any adverse change in government policy allowing duty free imports of dyes and dye intermediates in India significantly affecting the operations of AIL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

AIL is promoted by Mrs. Paru M. Jaykrishna who has vast experience of nearly 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.

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

Export focused business along with long standing relationship with its reputed customers
Being an export-oriented unit, AIL reported export sales of Rs.268.40 crore which constituted around 87% of its total sales during FY19. AIL is the one of the largest exporter of VS from India with around 27% share in its total exports from India during FY19. 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 Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) registration for exports up to 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 FY19 and Q1FY20.

Sound financial risk profile marked by growth in total operating income, low leverage and comfortable debt coverage indicators; albeit with moderation in operating profitability during FY19 and Q1FY20
The total operating income (TOI) of AIL registered a healthy y-o-y growth of 20.81% during FY19 to Rs.325.66 crore. The growth was on account of increase in overall sales volume by 9% on y-o-y basis during FY19 alongwith increase in sales realization of VS by 12.78% and CPC Green by 9.70% on y-o-y basis and contribution from H-acid plant which commenced operations from September 2018. Despite volume growth and healthy increase in sales realization of its two major products (VS and CPC green), the PBILDT margin declined by 595 bps on y-o-y basis and stood at 11.44% during FY19 due to high volatility in crude prices during the year leading to costlier raw materials and increase in other expenses (esp. pollution treatment cost associated with H-acid plant) due to initial teething problems related to the newly commissioned H-acid capacity. Correspondingly, gross cash accruals of the company also declined albeit remained healthy at Rs.31.53 crore during FY19 as against gross cash accruals of Rs.34.79 crore during FY18. Generation of healthy cash accruals from operations led to low outstanding debt of Rs.11.53 crore as on March 31, 2019 and nil outstanding debt as on September 30, 2019 leading to comfortable capital structure and healthy debt coverage indicators. TOI and profitability margins during Q1FY20 moderated further due to competition arising from oversupply situation in dye-intermediate market coupled with slowdown in the demand leading to softening of prices of VS in the global market.

Stabilization of the completed CPC green expansion facility and new H-acid plant
AIL had completed its capex for expansion in capacity of green pigments by March 2018. Post encountering stabilisation problems, capacity utilisation has improved during Q1FY20. Capacity utilisation of expanded CPC green improved from 80% during FY19 to 83% during Q1FY20. H-acid plant with 1,200 MTPA commenced operations from September 2018. Initial teething problems led to lower utilization levels of around 47% for Q3FY19. However, the plant is now stabilized and capacity utilization has reached to 87% during Q1FY20 and as indicated by the management currently the plant is running at 95% capacity utilisation.

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. 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 three years ended March 31, 2019. Curtailment of some production in China had led to spike in the prices of VS during FY17, although, the same stabilized during subsequent years. However, the exports have reduced proportionately during 5MFY20 and the realizations of VS have also moderated due to recommencement of some of the previously closed dye-intermediate capacity in China. Stricter pollution control norms in India has however 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: Strong
Liquidity of AIL is marked by strong cash accruals against nil debt repayment obligations. Further, AIL had total GST refund receivables of ~Rs.32 crore as on March 31, 2019 which are expected to be majorly realised during FY20 which would add to its liquidity. With an overall gearing of 0.04 times as of March 31, 2019, it has sufficient gearing headroom, to raise additional debt for its capex; although it is funding its ongoing capex of precipitated Silica from its liquid investments (from earlier QIP issue) and internal accruals without any reliance on debt. Its largely unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle despite increase, remained low at 44 days during FY19 and current ratio remained healthy at 2.73x as on March 31, 2019.

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 of dyes intermediates, forward integration into manufacturing of dyes, optimization of effluent handling cost and relatively more stable PBILDT margins. However, AIL is gradually diversifying its revenue and end-user industry profile through dye-intermediates (textile), pigments (printing ink) and PPT Silica (tyre) although currently VS still continues to be the major driver of the revenue followed by sales of CPC Green pigment and recently added H-acid.

During FY19, VS, CPC Green pigment and H-acid constituted approximately 66%, 29% and 5% 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 precipitated silica 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 around Rs.85.00 crore to be funded entirely through internal accruals and QIP funds. The project which was earlier expected to start its commercial operations from December 2019 is now expected to start commercial operations from mid-February 2020 and the sales from the same are expected to commence from April 2020; post attainment of the required product approvals. By September 30, 2019, the company has already incurred total cost of Rs.55 crore on the project. AIL has 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 stabilized, 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 for VS include acetanilide, Chlorosulphonic acid and ethylene oxide and for CPC Green pigment major raw material is CPC Blue Crude which together comprised nearly 57% of its total cost of raw material for FY19. AIL procures majority of its raw material from the domestic market and largely from 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 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 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 of reactive dyes that find 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. Further, from September, 2018, AIL also ventured into manufacturing of H-acid which is also used as an intermediate product for manufacturing of reactive dyes. As on June 30, 2019, AIL had total installed manufacturing capacity of 11,400 Metric Tons Per Annum (MTPA) consisting of 7,800 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)	*FY18 (A)	FY19 (A)
Total operating income (TOI)	269.56	325.66
PBILDT	46.89	37.26
PAT	30.56	22.59
Overall Gearing (times)	0.00	0.04
Interest coverage (times)	31.50	40.67

A: Audited

**FY18 figures have been restated as per Annual report of FY19*

As per unaudited results for Q1FY20, AIL reported total operating income (TOI) of Rs.71.03 crore (Q1FY19: Rs.78.53 crore) with a profit after tax (PAT) of Rs.5.99 crore (Q1FY19: Rs.7.55 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer **Annexure-2**

Annexure-1: Details of Facilities/Instruments

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	6.00	CARE A1+	1)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (02-Jan-18)	1)CARE A1+ (09-Jan-17)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	40.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-Apr-19)	-	1)CARE A+; Stable / CARE A1+ (02-Jan-18)	1)CARE A+; Stable / CARE A1+ (09-Jan-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (02-Jan-18)	1)CARE A+; Stable (09-Jan-17)

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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