AksharChem (India) Limited

November 10, 2020

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	10.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**50.00 (Rupees Fifty 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 and pigment industry with focus on export markets, long standing relationship of more than 20 years with reputed international clientele and good prospects for organized players of the Indian dyes/pigment industry on account of implementation of stricter pollution control norms. The ratings also take into consideration its comfortable leverage and strong debt coverage indicators during FY20 and Q1FY21 (refers to the period from April 01 to June 30). CARE also notes that AIL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its strong liquidity profile.

The long term rating of AIL is, however, tempered by the decline in its already moderate scale of operations with limited product diversity as compared with 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 and exchange rate fluctuations along with competition from various large domestic players in the dyes and dyes intermediate industry and from China in dye-intermediates business which has resulted in declining trend in its profitability over the past three years. The ratings are further constrained by inherent implementation and stabilization risk associated with its large-sized precipitated (PPT) silica project which is already delayed beyond its previously envisaged timelines.

Rating Sensitivities

Positive Factors

- 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 Factors

- PBILDT margin and ROCE below 10% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times along with weakening of debt coverage indicators on a sustained basis
- Further delay in completion of its ongoing capex for PPT silica beyond revised timelines and delays in stabilization of its operations.
- Any adverse change in government policy 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.

Export focused business along with long standing relationship with its reputed customers

Being an export-oriented unit, AIL reported export sales of Rs.206.46 crore which constituted around 85% of its total sales during FY20. AIL is one of the largest exporters of Vinyl Sulphone (VS) from India with around 41% share in its total exports from India during FY20. AIL produces high quality, non-carcinogen grade VS which has resulted in consistent

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

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 pigment business who consider AIL amongst their *"Preferred Supplier"*. AIL's CPC green pigment 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 started manufacturing new grades of Pigment Green 7 to tap a completely new set of clients in plastic industry and has plans to increase focus on coatings and plastic industries going forward. From September 2018, it also commenced manufacturing and sales of H-Acid, another dye-intermediate. AIL has continued to report healthy capacity utilizations for its VS, H-Acid and CPC Green manufacturing plants during FY20, although the same was impacted to a certain extent during Q1FY21 on account of Covid-19 pandemic and some issues w.r.to availability of few raw materials.

Comfortable leverage and debt coverage indicators
Generation of healthy cash accruals from operations has led to low outstanding debt of Rs.14.38 crore as on March 31, 2020 which further reduced to Rs.0.31 crore as on June 30, 2020 leading to comfortable capital structure and healthy debt coverage indicators marked by an overall gearing of 0.05x and total debt/ GCA of 0.69 years as on March 31, 2020. AIL's leverage and debt coverage indicators have remained comfortable over past many years despite volatility associated with the business due to its management's conservative stance on availing any major debt. Further, it has no plans to avail any fresh term debt in FY21 which is likely to result in continued comfortable capital structure in the short to medium-term.

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 India's export volumes during FY19 with correspondingly better realisation. However, the exports reduced significantly during FY20 and further the realizations of VS had also moderated due to recommencement of some of the previously closed dye-intermediate capacity in China.
Stricter pollution control norms in India has benefited organized players like AIL which follow processes like reverse osmosis, multi effect evaporation and brine system to ensure minimum waste generation. AIL spent Rs.13.67 crore on environment sustainability during FY20. 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 no term debt repayment obligations. Further, AIL had total GST refund receivables of Rs.33.75 crore as on March 31, 2020 out of which it has already realized Rs.21.12 crore by October 30, 2020 which augments its liquidity. With an overall gearing of 0.05 times as of March 31, 2020, it has sufficient gearing headroom, to raise additional debt for its capex; although it is funding its on-going capex of precipitated silica and corporate office from its liquid investments (from earlier proceeds of QIP issue) and internal accruals without any reliance on external debt. Its largely unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company had liquidity in the form of mutual funds of Rs.6.12 crore and investment in quoted equity share of Rs.0.15 crore as on Oct. 30, 2020. Operating cycle despite some elongation remained comfortable at 73 days during FY20 and current ratio remained healthy at 2.64x as on March 31, 2020. Also, AIL has not availed any moratorium on its debt obligations during the period from March to August 2020, the option for which was available to it as a Covid-relief measure under RBI's package which underlines its strong liquidity.

Key Rating Weaknesses
Relatively moderate scale of operations and its limited revenue diversity
AIL's scale of operations in terms of its total operating income (TOI) continued to remain moderate as compared with 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. Nevertheless, over the years, the contribution of VS to net sales of AIL has witnessed a declining trend with growth in sales of other two products. During FY20, VS, CPC green pigment and H-acid constituted ~50%, 33% and 17% respectively of AIL's net sales vis-à-vis ~66%, 29% and 5% during FY19.

Decline in its already moderate scale of operations along with declining trend in its profitability

The total operating income (TOI) of AIL moderated by 20% on y-o-y basis during FY20 to Rs.260.54 crore. This was mainly on account of moderation in sales realization and sales volume of VS; which contributes around 50% to its net sales. TOI moderated due to competition arising from over-supply situation in dye-intermediate market coupled with slowdown in the demand leading to softening of prices of VS in the global market. Correspondingly, gross cash accruals of the company also declined to Rs.20.77 crore during FY20 as against Rs.31.53 crore during FY19. AIL's profitability has been witnessing a declining trend over past three years, with its PBILDT margin declining from 17.40% during FY18 to 11.44% during FY19 and further to 10.25% during FY20; albeit its low debt levels have continued to provide adequate cushion to its debt coverage indicators.

During Q1FY21, AIL's TOI moderated further by 23% on y-o-y basis to Rs.54.37 crore on the back of Covid-19 induced lockdown impacting its sales volume by ~14% on y-o-y basis along-with further dip in sales realization of VS and H-acid on the back of slowdown in demand from their key end-user industries (textile). This also resulted in further moderation in its PBILDT margin to 9.03% during Q1FY21.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rates

AIL's main raw materials for VS include acetanilide, Chlorosulphonic acid, ethylene oxide, thionyl chloride, naphthalene while for CPC Green pigment the major raw materials are CPC Blue Crude and aluminium chloride which together comprised nearly 68% of its total cost of raw material for FY20. 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 is 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.

Implementation and stabilization risks associated with its large-sized PPT silica project which is already delayed

AIL is undertaking a project to enter new business of speciality chemicals by setting up a plant for manufacturing PPT silica and associated infrastructure at Dahej in Gujarat. The planned capacity for PPT silica has been revised upwards to 12,000 MTPA as against earlier envisaged capacity of 10,000 MTPA which has correspondingly led to increase in the project cost to around Rs.95.00 crore as against its last estimate of Rs.85 crore. AIL has envisaged to fund this capex entirely through internal accruals and previously raised QIP funds. The project which was earlier expected to start its commercial operations from July 2020 is now expected to start commercial operations from January 15, 2021 on account of revision in scope of project as well as due to impact of Covid-19 induced lockdown and the sales from the same are expected to commence post attainment of the required product approvals. AIL plans to gradually ramp-up its capacity utilisation over a period of six months post its COD and initially plans to cater to the demand from domestic tyre manufacturers. As on October 30, 2020, the company had already incurred total cost of around Rs.80 crore on this project. The company is also setting up a corporate office in Ahmedabad at a total cost of around Rs.10 crore during FY21. Entire capex is proposed to be funded from internal accruals and available liquidity.

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 project 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.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
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 Vinyl Sulphone (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 H'ble High Court of Gujarat, the Green pigment (CPC Green) division of ASCL was 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, 2020, AIL's installed manufacturing capacity comprised of 7,800 Metric Tons Per Annum (MTPA) for VS, 2,400 MTPA for CPC Green and 1,200 MTPA for H-acid.

Brief Financials (Rs. Crore)	*FY19 (A)	FY20 (A)
Total operating income (TOI)	325.66	260.54
PBILDT	37.26	26.71
PAT	22.59	15.72
Overall Gearing (times)	0.05	0.05
Interest coverage (times)	40.67	24.12

A: Audited
**FY19 figures have been restated wherever necessary*

As per published results for Q1FY21, AIL reported TOI of Rs.54.37 crore (Q1FY20: Rs.71.03 crore) with a PAT of Rs.2.26 crore (Q1FY20: Rs.5.99 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

Annexure - 1: Details of Instruments/Facilities

Name of the Instrument/ Bank Facilities	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	-	-	-	10.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	1)CARE A1+ (01-Apr-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (02-Jan-18)
2.	Fund-based - LT/ ST-EPC/PSC	LT/ST	40.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (01-Apr-20)	1)CARE A+; Stable / CARE A1+ (25-Oct-19) 2)CARE A+; Stable / CARE A1+ (04-Apr-19)	-	1)CARE A+; Stable / CARE A1+ (02-Jan-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Jan-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-EPC/PSC	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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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