Clariant Chemicals (India) Limited

April 5, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities (fund based)	150 (enhanced from Rs.75 crore)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Revised from CARE AAA; Credit Watch with developing implications (Triple A and removed from Credit watch with developing implications)**
Short-term Bank Facilities (non-fund based)	70 (enhanced from Rs.40 crore)	**CARE A1+ (A One Plus)**	**Removed from Credit watch with developing implications**
Total	**220 (Rs. Two hundred and Twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The removal of 'credit watch with developing implications' assigned to the bank facilities of Clariant Chemicals (India) Limited (CCIL) is on account of the abandonment of the planned merger between the ultimate holding company Clariant AG with Huntsman Corporation, USA.

The revision in the ratings assigned to the bank facilities of CCIL is on account of decline in operating margins from core operations in 9MFY18 (refers to the period April 1 to March 31) owing to susceptibility to raw material prices and narrowing of liquidity cushion over the years. The ratings, however, continue to derive strength from the parentage of Clariant AG, technical and managerial support received from the parent, established customer relationships and sales and marketing network, and comfortable financial risk profile with minimal reliance on debt.

However, the rating strengths are tempered by increase in product concentration risk as a result of the re-alignment in the business undertaken in the past, and inherent risk associated with the industry including competition from other organized/unorganized players and risk of slowdown in end user industries.

Going forward, CCIL's ability to improve its profitability margins whilst scaling of operations and efficient working capital management are key rating sensitivities. Furthermore, any major capital expenditure/acquisition leading to change in existing capital structure and any significant up-streaming of cash accruals to the parent straining the existing liquidity profile of the company are other key rating monitorables.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage along with synergies drawn from group and experienced management: Clariant A.G. is a leading global player in the field of specialty chemical company, headquartered in Muttenz, Switzerland. Clariant group is present majorly in four segments which are care chemicals, catalysis, natural resources, and plastics and coatings. The Indian operations also benefits from strong technological and product support from Clariant group. The operations of the company are spearheaded by Mr. Kewal Handa as the Chairman and Mr. Adnan Ahmad as the Vice-Chairman and Managing Director who are supported by a team of qualified and experienced professionals.

Established customer relationships, and sales and marketing network: The marketing set-up of the company is well-established comprising of multiple zonal and branch offices and over 100 dealers spread across the country supported by a technically qualified sales supporting staff.

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

Comfortable financial risk profile albeit narrowing of liquidity cushion: CCIL continues to have a comfortable financial risk profile marked by conservative capital structure and comfortable debt service coverage indicator. Although, the company is maintaining adequate liquidity for smooth functioning of the operations, however, the liquidity cushion available on sale of businesses/assets and internal accruals is narrowed significantly over the years due to dividends issued.

Key Rating Weaknesses

Decline in operating profitability due to susceptibility to volatility in raw material prices: The raw material requirement for CCIL includes crude oil based derivatives, commodities and others. Thus, the operating margins are exposed to volatility in raw material prices. Although, the profit before interest, depreciation and tax (PBILDT) margin continued at similar level in FY17 at 7.81% as compared to 7.77% in FY16, however, the same declined to 4.80% in 9MFY18 as compared to 6.84% in the corresponding period last year.

Realignment of portfolio leading to increased product concentration risk: In line with the global policy of the parent company Clariant AG to hive off low margin business and concentrate on businesses wherein the group enjoys competitive advantage and distinct pricing power, along with focus on markets characterized by above-average growth potential. Since then, the company divested its businesses of textile, paper and emulsions and leather chemicals, and acquired Plastichemix Industries Limited to strengthen its position in the master batches segment. Also, the company acquired the black pigment preparations portfolio of Lanxess India Private Limited in Q1CY15. Furthermore, CCIL transferred industrial consumer specialties (ICS) business to Clariant India Private Limited in Q2CY15. Thus, the realignment concentrated the product portfolio of the company towards paints, pigments and additives business. Out of the total gross sales in FY17, plastic and coatings, specialty chemicals and discontinued operations contributed 93%, 1% and 6% respectively.

Inherent risk for the industry: The company faces high competition from organized/unroganised players largely due to fragmented nature of the industry. Furthermore, the growth is dependent on end user industries revival of infrastructure sector (major real estate and construction) and automotive amongst others. However, the government's thrust on encouraging investments in petrochemical sector and plans to double per capita consumption of plastics by 2022 is expected to positively pan out over the long-term for the company.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company

Clariant Chemicals (India) Limited (L24110MH1956PLC010806, erstwhile known as ColourChem Limited), incorporated in 1956, is a part of Clariant group which holds 51% equity stake as on December 31, 2017. Clariant AG, flagship company of Clariant group, is one of the leading player in the field of fine and specialty chemicals headquartered in Muttenz, Switzerland with a global presence through various subsidiaries.
CCIL is involved in the manufacturing of pigments, additives, masterbatches and specialty chemicals which are classified under two business segments namely plastics and coatings, and specialty chemicals. The products manufactured by the company find application in various industries including automotive, paints, fiber, consumer durables, pharmaceutical, printing and packaging amongst others. The company's seven manufacturing facilities are spread across in India.

Brief Financials (Rs. crore)	FY16 (15m, A)	FY17 (12m, A)
Total operating income	1,163.79	989.80
PBILDT	90.42	77.35
PAT	54.69	24.48
Overall gearing (times)	Nil	Nil
Interest coverage (times)	124.68	167.14

A: Audited

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 recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	150.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	70.00	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 & Rating assigned in 2018-2019	Date & Rating assigned in 2017-2018	Date & Rating assigned in 2016-2017	Date & Rating assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	150.00	CARE AA+; Stable	-	1)CARE AAA (Under Credit watch with Developing Implications) (23-Jun-17)	1)CARE AAA; Stable (27-Jan-17)	1)CARE AAA (30-Jun-15)
2.	Non-fund-based - ST-BG/LC	ST	70.00	CARE A1+	-	1)CARE A1+ (Under Credit watch with Developing Implications) (23-Jun-17)	1)CARE A1+ (27-Jan-17)	1)CARE A1+ (30-Jun-15)

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