May 20, 2022

Agrocel Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	72.00	72.00	[ICRA]AA- (Stable); Reaffirmed
Non Fund Based	27.00	26.00	[ICRA]A1+ reaffirmed
Fund Based -Term Loan	-	10.00	[ICRA]AA- (Stable); Assigned
Total	**99.00**	**108.00**	

**Instrument details are provided in Annexure-1*

Rationale

To arrive at the ratings, ICRA has taken the consolidated view of Agrocel Industries Private Limited (Agrocel/AIPL) and its wholly-owned subsidiary – Solaris Chemtech Industries Limited (Solaris/SCIL) due to strong management, financial and operational linkages. These entities are collectively referred as the Group.

The rating reaffirmation considers the healthy consolidated financial risk profile characterised by robust debt protection metrics and favourable capital structure with pre-payment of term debt. ICRA notes that despite moderation in the profit margins in FY2022 owing to increased power cost, profitability continues to remain healthy in its bromine business. The ratings continue to factor in the leadership position of the Group in the domestic market with its significant market share in bromine and bromine-based speciality chemicals. Further, the Group is also one of the leading players in the bromine industry, globally. Moreover, the liquidity profile remains strong with the Group having access to unutilised working capital limits and no repayment obligations up to FY2029. The ratings also reflect the Group's competitive advantage on account of its unique location near the sea coast of the Great Rann of Kutch in Gujarat providing access to natural resources as an entry barrier. The ratings further consider the company having an abundant access to the key raw material (sea bittern) at the Great Rann of Kutch as well as its technically competent and experienced key managerial personnel.

However, the ratings are constrained by the revenue concentration from the bromine industry with more than ~95% revenue from bromine and bromine derivatives, although the risk is partly mitigated by diversified end use of products. The ratings further note the climatic risks associated with both its divisions (marine chemical and agro-service) and the chemical plant's capacity utilisation dependent on the bromine concentration of sea bittern, which can be erratic in different seasons. The ratings are also constrained due to the cyclicality associated with its chemical business as well as the agro-service business.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group's credit profile will be stable in the medium term backed by moderate revenue rate, supported by the growing demand from export customers along with it maintaining a healthy profitability.

Key rating drivers and their description

Credit strengths

Long track record of promoters in chemical segment – Agrocel and Solaris are part of the Excel Group of Companies, promoted by the Shroff family. The Group companies include Excel Industries Limited and Transpek Industry Limited, among others. Besides their experience in the agrochemical and speciality chemical business spanning over five decades, the promoters have close to two decades of experience in the bromine and bromine derivatives segment.

Healthy market position in bromine industry – Agrocel has an established market position in the Indian bromine industry and, with the acquisition of Solaris, the Group is a market leader with significant market share in the domestic market. Further, bromine has a positive demand outlook due to its increased applications and improving realisations in the domestic and global markets. As a result, the Group would continue to enjoy a competitive position over the medium term.

Distinctive location limits competition and ensures raw material availability – The bromine plants of the Group are located in the Great Rann of Kutch. The unique infrastructure of the region, coupled with the presence of the Indian Armed Forces, increases the number of approvals required and the duration of the gestation period for any new business in the vicinity. This acts as an entry barrier for the new players, resulting in limited competition. Additionally, a key advantage of the location is the unlimited access it provides to the company to its key raw material, sea bittern.

Reputed customer base – The Group has an established customer base in both the domestic and export markets. The major customers for bromine are the large agrochemical companies in India. Among the bromine-based speciality chemicals, the major product is hydrobromic acid, for which the main customers include pharmaceutical entities, large oil and gas exploration companies and drilling service providers, among others.

Healthy profitability and robust coverage indicators – The group witnessed moderation in profitability as the rising coal prices impacted the profitability of Solaris which operates captive power plant, however, the operating profitability continues to remain healthy driven by improved realisations of bromine and its derivatives as reflected by operating profit of 42.3% in F2022 (declined from 47.9% in FY2021) while net profit remained at 23.7% in FY2022 (declined from 27.4% in FY2021With healthy profitability, the cash accruals remained strong and are expected to improve further with the increase in scale and profitability. Accordingly, the Group has significantly prepaid its debt and has no repayment obligations till FY2029. Hence, the coverage indicators would also remain robust (interest coverage of over eighteen times and NCA/Debt of over 170%) in FY2022 and would improve further with the reduction in debt levels as the Group continues to prepay its debt.

Credit challenges

High revenue concentration; operations vulnerable to climatic risks – The majority of the Group's revenue (more than ~95% in FY2022) is derived from bromine and bromine derivatives which exposes the Group to revenue concentration risk. However, the products find application in various industries; hence, the risk is limited in its effect in terms of concentration to end-user industry. Moreover, for the marine chemical division, the climatic and event risks pose a more serious threat as the Kutch region, which witnessed a number of natural disasters, is prone to extreme climatic conditions. Natural disasters or even an excess rainfall can severely disrupt the company's operations by affecting sea bittern resources. The company's agro-service division deals in agri-products, the availability of which is exposed to the risks associated with climatic conditions (with monsoons and/or heat waves playing a significant role in production).

Vulnerability of profitability to volatility in product prices and input costs – The group's profitability has witnessed improvement over last couple of years (except in FY2022 due to increased energy cost) following the improvement in the realisations of bromine and bromine derivative products. The domestic bromine prices move in tandem with global bromine prices. Any sharp decline in bromine prices could have adverse impact on the profitability of the group as the raw material cost remains minimal with abundant availability.

Liquidity position: Strong

Overall, the Group's liquidity position remains strong with its access to unused working capital limits of Rs. 102 crore, at present. The Group has high retained cash flows and they are expected to improve further with the improvement in the scale of operations. Further, with significant prepayment of debt in the current fiscal, it does not have any repayment obligations till FY2029. The Group had cash accruals of 262 crore in FY2021 and is expected to have heathy cash accruals in FY2022 and FY2023 and, with moderate capex plan of ~Rs. 80-100 crore in FY2023, ICRA expects it would continue to prepay its outstanding term debt.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to diversify its product portfolio and considerably grow its revenue while maintaining healthy profit margins. .

Negative factors – The ratings could witness a downgrade if there is any major debt-funded capex or sizeable investments resulting in significant additional debt, leading to the net Debt/OPBDIT ratio exceeding 2.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	ICRA has taken consolidated view of Agrocel and Solaris due to strong management, operational and financial linkages.

About the company

Agrocel Industries Private Limited (AIPL) is part of the Excel Group of companies, promoted by the Shroff family; the group companies include Excel Industries Limited, Excel Crop Care Limited (promoters sold stake to Sumitomo Chemical in FY2017), Transpek Industries Limited and others. AIL has two business divisions operating in diverse segments – Marine Chemicals and Service. The Marine Chemicals Divisions, established in 1994, is involved in the manufacture of Bromine and Bromine-based specialty and fine chemicals. The manufacturing facility is located in the Greater Rann salt desert in Kutch, Gujarat and Bhavnagar. The Service Division, established in 1989, is involved in agriculture related activities, and deals primarily in the niche Organic and Fair Trade markets.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	930.3	769.0
PAT (Rs. crore)	289.4	210.7
OPBDIT/OI (%)	56.5%	48.5%
PAT/OI (%)	31.1%	27.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.5
Total Debt/OPBDIT (times)	0.9	0.6
Interest Coverage (times)	7.6	10.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 20, 2022	May 17, 2021	-	March 4, 2020
1	Cash Credit	Long-term	72.0	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	-	**[ICRA]AA- (Stable)**
2	Bank Guarantee	Short term	26.0	-	**[ICRA]A1+**	**[ICRA]A1+**	-	**[ICRA]A1+**
3	Term Loan	Long-term	10.0	NIL	**[ICRA]AA- (Stable)**		-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash Credit	Simple
Non Fund Based	Very Simple
Fund Based -Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	72.0	[ICRA]AA-(Stable)
NA	Bank Guarantee	-	NA	-	26.0	[ICRA]A1+
NA	Term Loan	FY2022	8.15%	FY2028	10.0	[ICRA]AA-(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	AIPL Ownership	Consolidation Approach
Solaris Chemtech Industries Limited	100.00%	Full Consolidation

Source: *AIPL*

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