September 30, 2022

Alchemie Finechem Private Limited (erstwhile Alchemie Laboratories): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term fund-based /Non fund-based	30.00	50.75	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed/assigned
Total	**30.00**	**50.75**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in the extensive experience of Alchemie Finechem Private Limited (AFPL) in manufacturing diethyl phthalate (DEP) and other speciality chemicals and its strong operational linkages with Group company, Aarti Industries Limited (AIL). The ratings also factor in the robust operating performance with healthy operating profits of AFPL, driven by the high market share of the products and increasing contribution from high-margin products. ICRA expects the healthy improvement in performance to continue over the medium term. AFPL is expected to maintain strong revenue growth over the medium term with healthy operating profits supported by a good product mix and the expansion plans undertaken by the company. The capital structure and debt servicing indicators are expected to remain comfortable owing to the healthy profit margins. Further, the demand outlook remains stable for the company's products which find usage in the dye & pigment, food colour and perfume industries. The ratings also take into consideration the company's established relationships with reputed customers in the domestic and international markets.

The ratings, however, remain constrained by the company's moderate scale of operations with a concentrated product profile with DEP contributing 38% to the revenues in FY2022. ICRA, however, notes that the contribution of the high-margin product segments, such as ethyl benzyl aniline sulphuric acid (EBASA), etc. has increased in the last few years. The ratings also remain tempered by the vulnerability of the company's profitability to the fluctuation in raw material prices, mitigated to a certain extent by the reset of prices on a regular basis for both domestic and international clients. The ratings also consider the working-capital intensive nature of business, reflected in a net working capital intensity of 30% in FY2022. Further, the planned large capex in the medium term would entail debt inflow and require deployment of internal accruals.

The Stable outlook on the long-term rating reflects ICRA's opinion that AFPL will continue to maintain its credit profile over the medium term owing to the favourable demand outlook for its products, along with operational support from AIL.

Key rating drivers and their description

Credit strengths

Established track record of the company in manufacturing of chemicals with strong linkages to AIL – AFPL is a part of the Aarti Group of companies and is managed by the experienced management team of Aarti Industries Limited (AIL). Mr. Rashesh Gogri has over a decade's experience in the chemical industry and looks after the company's overall management. Mr. Monil Vikam has an extensive track record in the chemical industry, with an experience of more than 15 years. The company enjoys operational synergies due to its strong linkages with AIL in the form of marketing support for sales and bulk procurement of raw materials.

Healthy operating profits– The operating profit remained healthy at 18.3% in FY2022, aided by the increased share of relatively high-margin products and lower raw material expenses. ICRA expects the healthy operating profits to sustain over the medium term and the business is likely to chart a strong revenue growth with the increase in product diversification post the capacity expansion in Gujarat. The capital structure and debt servicing indicators are expected to remain comfortable owing to the healthy profit margins.

Established relationships with reputed customers in domestic and overseas markets– AFPL derives 30-40% of its revenues from exports and the remaining from the domestic market. The company's customer base includes reputed players such as Colourtex Industries Pvt Ltd, N. Rangarao & Sons Pvt. Ltd., Moksh Agarbatti Company, Neelikon Food Dyes & Chemicals Ltd., among others.

Credit challenges

Moderate scale of operations– AFPL's scale of operations is moderate with an operating income of Rs. 233.69 crore in FY2022. Further, the company's dependence on a single product (DEP) remains high. However, going forward, the revenue growth is expected to be supported by an increase in product diversification. Further, the medium-to-long-term outlook remains favourable for the specialty chemical segment, aided by robust demand from the exports as well as growth prospects in the domestic market.

Large capex plans in the medium term– AFPL plans to set up another unit in Gujarat. The estimated capex is Rs. 360 crore over the next three years and to be funded by internal accruals (Rs. 50 crore), equity infusion (Rs. 150 crore), unsecured loans from promoters (Rs. 60 crore) and term loan from bank (Rs. 100 crore). Out of the total capex, ~Rs. 21.00 crore is already incurred. However, the additional revenues and operating profits from the proposed capex is expected to maintain the coverage indicators at adequate levels.

Working capital intensive nature of operations– The company's working capital intensity, as reflected in the net working capital intensity (NWC/OI), remained moderate at 30% in FY2022 (20% in FY2021) with high advances to suppliers combined with moderation in creditors.

Margins susceptible to fluctuations in raw material prices–The raw material prices are linked to crude oil price movements and the demand-supply balance in the market. The company's ability to pass on the impact of raw material price fluctuations to its customers will remain crucial for sustaining its profit margin.

Liquidity position: Adequate

AFPL's liquidity profile is adequate, backed by healthy accruals and low utilisation of limits with a healthy liquidity buffer of about 50% as on August 31, 2022. Though the company plans to undertake capex in the medium term, it is likely to be funded comfortably through a mix of term loan, unsecured loans from promoters and the remaining through internal accruals and equity infusion.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if AFPL's scale and profitability continue to improve on a sustained basis, while improving its working capital cycle and healthy liquidity indicators.

Negative factors – The ratings may witness pressure if the scale and profit margins witness a sustained deterioration. Any substantial dividend payout and larger-than-estimated debt-funded capex putting pressure on the cash flows and debt coverage metrics may also result in a rating downgrade. Specific credit metrics that could lead to a rating downgrade include TD/OPBIDTA of more than 2.5 times on a sustained basis.

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	For arriving at the ratings, ICRA has considered the standalone financials of AFPL.

About the company

AFPL, established in 1975 as a proprietorship firm, was converted into a private limited entity in May 2021. It manufactures DEP, ethyl benzyl aniline sulphuric acid, di ethyl meta toluidine, di methyl para toluidine, N ethyl ortho toluidine and other speciality chemicals. The products cater to the perfume, food colour and dye and pigment industries, among others. Its manufacturing unit is at Dombivli, Thane (Maharashtra), with an installed production capacity of 22,160 metric tonnes per annum. AFPL is a part of the Aarti Group of companies and is run by the experienced management team of AIL.

Key financial indicators (audited)

AFPL	FY2021	FY2022*
Operating income	190.8	233.69
PAT	36.8	30.2
OPBDIT/OI	21.4%	18.3
PAT/OI	19.3%	12.9
Total outside liabilities/Tangible net worth (times)	1.9	1.2
Total debt/OPBDIT (times)	0.7	0.98
Interest coverage (times)	19.58	11.29

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

* *FY2022 figures are arrived using 2M FY2022 (April-May 21 2022) + 10M FY2022 figures. On May 2021, the private limited has been incorporated from the earlier partnership firm. Balance sheet was taken as on March 31, 2022 and P&L was merged for 2M FY2022 + 10M FY2022.*

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 as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 30, 2022	Jun 25, 2021	-	Dec 24, 2019
1	Fund based/Non Fund Based	Long-term / Short-term	50.75	-	[ICRA]BBB+(Stable)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	-	-
2	Fund based – Cash Credit	Long-term	-	-	-	-	-	[ICRA]BBB(Stable)
3	Interchangeable	Short-term	-	-	-	-	-	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund-based/ Non Fund Based	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 analysing 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/Non Fund Based limits	NA	NA	NA	50.75*	[ICRA]BBB+(Stable) /[ICRA]A2

Source: Company; *Total utilisation of fund based and non-fund based limit cannot exceed Rs. 50.75 crore, of which, total utilisation of fund-based limits should not exceed Rs. 20 crore. The fund-based limits include Cash credit (CC), Working Capital Demand loan (WCDL), Export Packaging credit/Packaging Credit in Foreign Currency (EPC/PCFC), Foreign bill discounting (FBD)/Foreign bill purchase (FBP). The Non fund-based limits include Letter of Credit (LC), Bank Guarantee (BG), BG/SBLC for Buyer's Credit (BC).

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545322
Prashant.vasisht@icraindia.com

Kushal Kumar B
+91 40 40676521
kushal.kumar@icraindia.com

Arvind Srinivasan
+91 44 4297 4316
arvind.srinivasan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

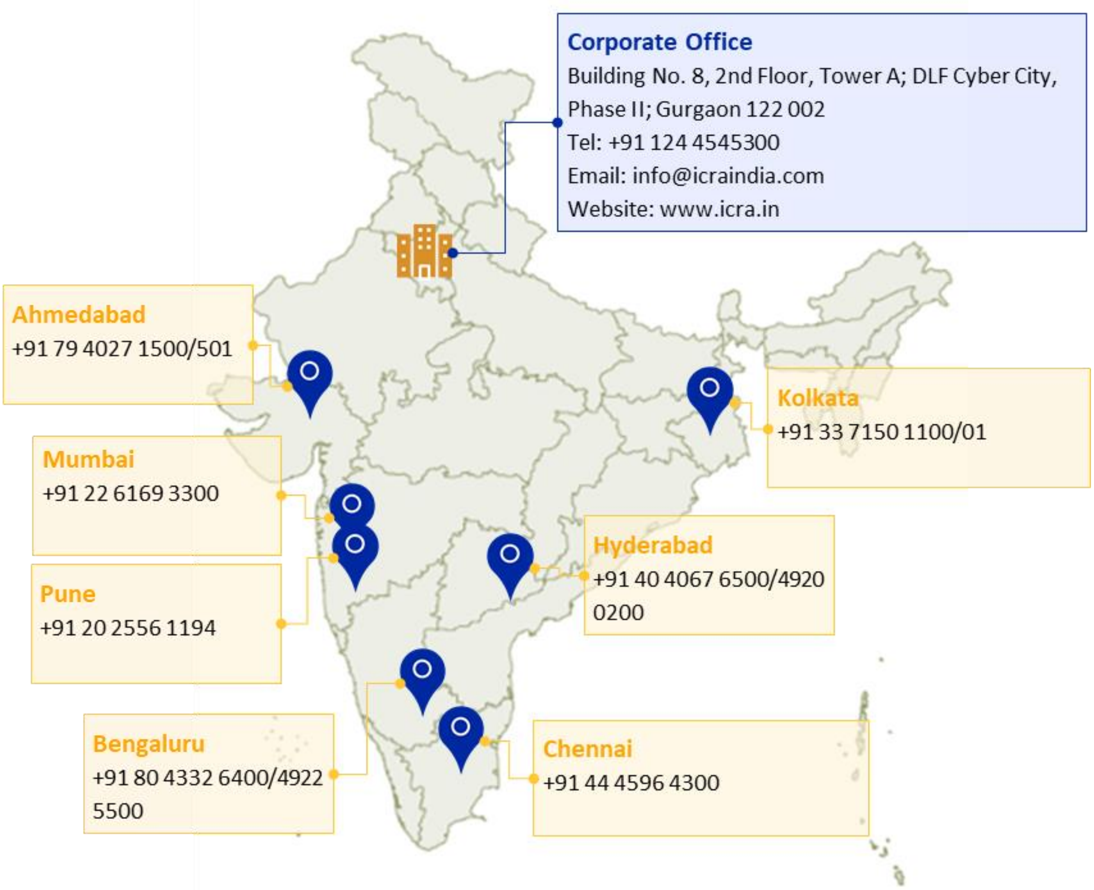
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.