May 12, 2023

Ultramarine and Pigments Ltd: [ICRA]A+(Stable)/[ICRA]A1+ Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	7.50	1.00	[ICRA]A+(Stable) reaffirmed
Short-term – Non-fund based	6.00	11.32	[ICRA]A1+ reaffirmed/assigned
Long-term – Term loans	0.00	48.17	[ICRA]A+(Stable) assigned
Short-term – Fund Based	0.00	7.00	[ICRA]A1+ assigned
Long term – Unallocated limits	1.50	0.00	-
Total	**15.00**	67.49	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into consideration Ultramarine and Pigments Ltd's (UPL) established track record as a manufacturer of ultramarine blue pigments and surfactants. Further, the company has long-standing relationships with its customers. The ratings also factor in a healthy financial risk profile, characterised by a robust revenue growth to Rs. 432 crore in 9M FY2023 from Rs. 490 crore in FY2022, supported by improved revenue from the surfactant division. Further, the capital structure remained comfortable as on September 30, 2022 owing to the low debt levels and the coverage indicators were healthy in FY2022 and 9M FY2023. The ratings also factor in UPL's strategic equity investments in Thirumalai Chemicals Ltd, which provide financial flexibility.

The ratings, however, are constrained by product concentration risk in the pigment segment as the company manufactures majorly a single product– ultramarine blue. While the company is making efforts to develop new products, successful induction and market development for such products that would result in a meaningful diversification of the revenue stream remains to be seen.

The company's profitability is exposed to the fluctuation in raw material prices, with the operating profitability declining to 19.5% in 9M FY2023 from 24.6% in FY2021 owing to high raw material prices. The operating profitability is further impacted by the increased revenue contribution from surfactants, which are low-margin products. The ramp up of operations of a new pigment unit under UPL's wholly-owned subsidiary will be key in improving the company's profitability and important from a credit perspective. The profitability is further exposed to forex risks given the significant exports. However, the impact is minimised to an extent by natural hedging as a part of the raw material is imported.

The Stable outlook on the rating reflects ICRA's opinion that UPL will continue to benefit from its extensive experience and established track record, its strong market position in the pigment and surfactant segments and a healthy financial profile.

Key rating drivers and their description

Credit strengths

Extensive experience and presence in ultramarine blue pigment industry – UPL commenced operations in 1961 and is one of the largest manufacturers of ultramarine blue pigments in India. Ultramarine blue pigment has diverse application with high-grade pigments used in industries such as plastics, paints, coatings, cosmetics, food, detergents, etc. The lower grade pigments are primarily used for whitewashing and laundry applications. The pigment segment has limited geographical and customer concentration risks due to its significant presence in the export market and an established customer base in the domestic market.

Established presence and long-standing customer relationship in surfactant industry - UPL is among the key suppliers of surfactants to detergent manufacturers, including some of the large multinational FMCG players, in South India. The company has been catering to these large FMCG participants over the years and its established relationship has aided in maintaining a steady growth in revenues in this segment.

Healthy financial risk profile - The operating income grew to Rs. 431.7 crore in 9M FY2023 from Rs. 490.4 crore in FY2022 owing to the higher revenue contribution from the surfactant division. The new surfactant unit began operations in March 2021, increasing the segment's revenue to Rs. 265.04 crore in 9M FY2023 from Rs. 315.66 crore in FY2022. Moreover, the capital structure is comfortable, characterised by gearing of 0.2 times as on September 30, 2022 owing to a healthy net worth position and relatively low reliance on external debt. The coverage indicators remain comfortable, reflected in an interest coverage of 27.9 times in 9M FY2023 owing to the low interest expense and healthy operating profits.

Credit challenges

High product concentration in pigment segment - UPL's operation in the pigment segment is characterised by low product diversification and competition from global players. Its revenue from this segment is primarily dependent on ultramarine blue pigments with limited revenue from other pigments. While the company is making efforts to develop new products, successful induction and market development for such products that would result in a meaningful diversification of the revenue stream remains to be seen. The low value addition in the surfactant segment and intense competition restricts the company's pricing flexibility. The end-user product for the segment – detergents – is consumer commodity with low demand growth. Hence, its scope for improving the scale of operations and profitability remains limited, despite the increasing preference of its products.

Vulnerability of profitability to adverse fluctuation in raw material prices and forex – The company's operating profitability is exposed to the fluctuation in raw material prices, reflected in the decline in UPL's operating profitability to 19.5% in 9M FY2023 from 24.6% in FY2021 owing to higher raw material prices. The operating profitability is further impacted by the increased revenue contribution from surfactants, which is a low-margin product. The profitability is further exposed to forex risks as the company exports its products to the US and the European market. However, the impact is minimised to an extent by natural hedging as a part of the raw material is imported from the US.

Environmental and social risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for production, handling, disposal, and transportation of chemical products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While UPL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency--high impact) weighs on its rating.

Further, operating responsibly is an imperative and instances of non-compliance with the environmental, health, and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. UPL hasn't experienced/ reported any incidents suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Strong

UPL's liquidity position is expected to be strong with healthy cash flows from operations, cash and bank balances and liquid investments of Rs. 24.65 crore as on September 30, 2022, and comfortable buffer in working capital limits from banks. UPL has debt repayment obligations of ~Rs. 9 crore in FY2024 and ~Rs. 21 crore in FY2025 which the company is expected to comfortably meet from its operational cash flows. Further, over the next two years, the company plans to incur a capex of Rs. 62 crore in FY2024 and Rs. 32 crore in FY2025 and the same would be majorly funded by internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates a significant improvement in scale and profitability indicators while maintaining a comfortable capital structure, and healthy coverage indicators and liquidity position.

Negative factors – Pressure on the ratings could emerge if there is a sustained decline in revenue and profitability, or a stretch in the working capital cycle, which along with the large debt-funded capex/investments, would weaken the credit profile. Specific credit metrics for a downgrade include TD/OPBDITA of more than 1.8 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 consolidated financials of UPL. The details of consolidation is provided in Annexure II

About the company

Ultramarine & Pigments, established in 1960, has its manufacturing facilities at Ambattur (Chennai), Ranipet (North Arcot, Tamil Nadu) and Naidupeta, Andhra Pradesh. It is one of the major manufacturers of ultramarine blue pigments and surfactants in India. The company also manufactures detergent powder/liquid (under the brand name OOB) and other inorganic pigments in a smaller scale. Besides, it has an ITeS/BPO division with specialisation in content management, publishing, hospital billing services, etc. UPL also earns a small revenue from its windmill division. It has a capacity 7,500 MTPA in the pigment segment and 50,000 MTPA in the surfactant segment. The company incorporated a wholly-owned subsidiary, Ultramarine Speciality Chemicals Limited, in December 2019 to expand its pigment production. The production facility commenced operations in August 2022.

Key financial indicators (audited)

Ultramarine And Pigments Limited Consolidated	FY2021	FY2022	9M FY2023*
Operating income	308.2	490.4	431.7
PAT	55.8	58.3	58.3
OPBDIT/OI	24.6%	17.2%	19.5%
PAT/OI	18.1%	11.9%	13.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.5	0.6	-
Interest coverage (times)	45.5	23.1	28.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 23, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 12, 2023	April 29, 2022	-	Jan 29, 2021
1	Fund-Based	Long Term	1.00	-	[ICRA]A+(Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)
2	Non-Fund Based	Short Term	11.32	-	[ICRA]A1+	[ICRA]A1 +	-	[ICRA]A1+
3	Unallocated	Long Term	0.00	-	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)
4	Term Loans	Long Term	48.17	43.63	[ICRA]A+(Stable)	-	-	-
5	Fund-Based	Short Term	7.00	-	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Working Capital Facilities	Simple
Short-term non-fund based limits	Very Simple
Short-term fund based limits	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Short Term - Fund Based – Working Capital Facilities	-	-	-	7.00	[ICRA]A1+
	Non Fund Based Limits	-	-	-	11.32	[ICRA]A1+
	Term Loans	FY2022	-	FY2026	48.17	[ICRA]A+(Stable)
	Long Term – Fund Based – Working Capital Facilities	-	-	-	1.00	[ICRA]A+(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	UPL Ownership	Consolidation Approach
Ultramarine Specialty Chemicals Limited	100.00% (rated entity)	Full Consolidation

Source: UPL annual report FY2022

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

B Kushal Kumar
+91 40 4547 4829
kushal.kumar@icraindia.com

Arvind Srinivasan
+91 44 4267 4316
arvind.srinivasan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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:

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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