

December 21, 2023

## Neelikon Food Dyes and Chemicals Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Cash credit	10.00	10.00	[ICRA]A+(Stable); reaffirmed
Short-term - Fund/Non-fund based WC limits	91.50	91.50	[ICRA]A1; reaffirmed
Short-term – Fund-based/Non-fund based – Others (Sublimit)	(85.25)	(85.25)	[ICRA]A1; reaffirmed
Long-term/Short-term – Fund based/Non-fund based – Others (Sublimit)	(159.00)	(159.00)	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Short-term - Non-fund based – Forward cover	3.25	3.25	[ICRA]A1; reaffirmed
<b>Total</b>	<b>104.75</b>	<b>104.75</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the ratings of Neelikon Food Dyes and Chemicals Limited (NFDCL) considers the healthy financial profile of the company, characterised by low gearing, comfortable debt coverage metrics and robust cash flows. The ratings also consider the long track record of the promoters in the dye and chemical industry, low customer concentration risk with exports to more than 100 countries and a diversified supplier base.

ICRA notes that the company's performance has been impacted by the subdued demand from the export markets as well as the increasing supplies from Chinese manufacturers in FY2023 and the impact has continued in FY2024 as well. Nevertheless, the credit profile of the company remains healthy, driven by robust cash flow from operations which has enabled the company to fund the ongoing capex plan with internal accruals and also reduce the working capital borrowings to some extent. The total debt/OPBDITA moderated to 0.78x in FY2023 from 0.71x in FY2022, while the interest coverage ratio came down to 19.2x in FY2023 from 57.6x in FY2022. Going forward, while the profitability is expected to remain subdued vis-à-vis FY2022 and the prior years, the overall credit profile is expected to remain healthy amid no debt repayments and no major capex plans.

The ratings are, however, constrained by the vulnerability of the company's operations to any demand slowdown in the export market, changes in regulatory environment for food dye products, the working capital-intensive operations and competitive pressure from both domestic and overseas players. ICRA further notes that the company's profitability remains exposed to the adverse fluctuations in raw material prices owing to the high levels of inventory maintained by the company. The company is in the midst of a sizeable capex towards a greenfield project which will be funded through internal accruals, exposing it to execution risks.

The Stable outlook reflects ICRA's opinion that the credit profile of the company will remain stable in the near to medium term, supported by a long track record and the established position of the company in the dye/pigment segment.

## Key rating drivers and their description

### Credit strengths

**Long proven track record in dyes and pigments** - NFDCL has a long track record in the dyestuff business and has products catering to the food, pharmaceutical, personal care, ink and several other industries. The company has a broad product portfolio across different product categories. Further, the extensive experience of the promoters in the business provides comfort against marketing risks.

**Healthy financial risk profile** – The company's reliance on external debt remains limited, resulting in low gearing and healthy debt coverage metrics. In FY2023, the operating income witnessed a degrowth of 7%, mainly due to the demand headwinds in the export market amid the macroeconomic headwinds being faced in the developed markets. The OPM was 12.4% and NPM was 10.6% in FY2023 compared with 20.1% and 15.5%, respectively, in FY2022. While the financial performance has moderated, the credit profile continues to be healthy.

**Diversified customer and supplier base** - The company has an established presence in the export market, covering sales in more than 100 countries. NFDCL's exports are well-diversified with a strong distribution network. It has dedicated subsidiaries set up in the UK, China and the Netherlands for catering to these geographies. In the domestic market, NFDCL has a strong distributor base and caters directly to large companies in the food, pharmaceutical and personal care segments. The company's supplier base remains well diversified with limited risks.

### Credit challenges

**Exposure to cyclicity in end-user demand and regulatory changes** – The operations of the company are vulnerable to any demand slowdown in the export markets as well as changes in regulatory environment for food dye products across various geographies.

**Vulnerability to input price fluctuations** – The operating profitability remains exposed to the adverse fluctuation in the cost of raw materials owing to the high level of inventory maintained by the company.

**High competitive pressure from domestic and overseas export markets** - The global synthetic food colouring sector is divided into colours for mass consumption and value-added colours. The competitive pressure is high in mass consumption colours, while the value-added colour segment is highly concentrated, with a few large companies and direct sales to the end-users. Though NFDCL faces stiff competition from these players in the international market, the profitability margins on the value-added products are healthy, providing some pricing flexibility to the company. Domestically, the industry is highly fragmented and characterised by intense competitive pressures from both the organised and unorganised segments.

### Liquidity position: Strong

The company's liquidity remains strong owing to healthy cash accruals and healthy unencumbered cash balances of Rs. 67.5 crore as on September 30, 2023 (standalone). ICRA expects the liquidity of the company to remain strong, going forward, on the back of stable cash flow from operations, healthy cushion in the working capital limits (average fund-based limit utilisation of 49% for last 12 months ended August 2023 for the limits of Rs. 89 crores) and no repayments for long-term debt

### Rating sensitivities

**Positive factors** – ICRA could upgrade NFDCL's ratings if the company demonstrates a sustained improvement in its scale of operations while maintaining a healthy capital structure and/or improving its operating profitability.

**Negative factors** – Pressure on the ratings could emerge if there is a significant decline in the revenue or profit margin on a sustained basis, or if the company undertakes a sizeable debt-funded capital expenditure, or if a stretch in the working capital

intensity puts pressure on its liquidity profile. A specific credit metric for downgrade would be TD/OPBDITA >1.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Chemicals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

## About the company

Neelikon Food Dyes and Chemicals Limited (NFDCL) was incorporated in 1994 by taking over the proprietary concern, Neelikon Dyestuffs, which was started by Mr Mukund Turakhia in 1983. Mr Mukund Turakhia is a Chemical Engineer by qualification and has been associated with the dyestuff and chemical industry for over 50 years. The company produces dyes catering to various industries, including food, pharmaceutical, cosmetics, inkjet ink, writing ink and fluorescent pigments. NFDCL's manufacturing facilities are based in Roha, Maharashtra, with a combined manufacturing capacity of 4,625 MTPA, including its manufacturing partners' capacities. The company has a distributorship network spanning over 100 countries.

## Key financial indicators (audited)

NFDCL Consolidated	FY2022	FY2023
Operating income	452.4	421.4
PAT	70.2	44.6
OPBDIT/OI	20.1%	12.4%
PAT/OI	15.5%	10.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.7	0.8
Interest coverage (times)	57.6	19.2

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

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 22, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Dec 21, 2023	Nov 17, 2022	Sep 27, 2022	June 30, 2021	-
1 Fund-based - Cash credit	Long term	10.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2 Non-fund based WC limits	Short term	91.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
3 Non-fund based – Others (Sublimit)	Short term	(85.25)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
4 Fund-based/Non-fund based – Others (Sublimit)	Long term and short term	(159.00)	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
5 Non-fund based - LC, BG	Short term	3.25	-	[ICRA]A1	[ICRA]A1	-	-	-
6 Unallocated limits	Long term and short term	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based - Cash credit	Simple
Short-term - Fund/Non-fund based WC limits	Simple
Short-term - Fund based/Non-fund based – Others (Sublimit)	Simple
Short-term/Long-term – Fund-based/Non-fund based – Others (Sublimit)	Simple
Short-term - Non-fund based – Forward cover	Very 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
NA	Long-term - Fund based - Cash credit	NA	NA	NA	10.00	[ICRA]A+(Stable)
NA	Short-term - Fund/Non-fund based WC limits	NA	NA	NA	91.50	[ICRA]A1
NA	Short-term - Fund based/Non-fund based – Others (Sublimit)	NA	NA	NA	(85.25)	[ICRA]A1
NA	Short-term/Long-term – Fund-based/Non-fund based – Others (Sublimit)	NA	NA	NA	(159.00)	[ICRA]A+(Stable)/[ICRA]A1
NA	Short-term - Non-fund based – Forward cover	NA	NA	NA	3.25	[ICRA]A1

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	Ownership	Consolidation Approach
Shanghai Neelikon Food Dyes & Chemicals Ltd.	100%	Full Consolidation
Neelikon Food Dyes & Chemicals (Europe) Ltd.	100%	Full Consolidation
Neelikon Food Dyes & Chemicals (Netherlands) Ltd.	100%	Full Consolidation

Source: Company data

Note: ICRA has taken a consolidated view of the parent (NFDCL) and its subsidiaries

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