

March 31, 2024

Esteem Industries Pvt. Ltd: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund based-Cash credit	75.00	[ICRA]BBB (Stable); Assigned
Long term-Fund based-Term loan	1.34	[ICRA]BBB (Stable); Assigned
Short term-Non fund based-LC/BG	24.50	[ICRA]A3+; Assigned
Total	100.84	

*Instrument details are provided in Annexure-I

Rationale

While assigning the ratings to the bank lines of Esteem Industries Pvt. Limited (EIPL/ the company), ICRA has considered the consolidated financials of EIPL which includes its wholly owned subsidiary Dyna glycols Private Limited (DGPL, rated [ICRA]BBB (Stable)/[ICRA]A3+) and its step-down subsidiary, Harcros Chemicals Private Limited (HCPL, 100% owned by DGPL). The entities together are referred to as the Esteem group/the group. The ratings assigned to the bank lines of EIPL consider the group's established track record, extensive experience of the promoters in the chemicals industry and healthy ramp of capacities added in recent years, leading to healthy growth in scale of operations in last few years. The ratings also consider the continued relationship with suppliers and customers, diversified product profile with application in end user industries like textile, paper, paint etc. which reduces dependence on any particular industry. The financial risk profile is comfortable as characterized by adequate cash accruals, limited external debt payment obligations and healthy credit metrics.

The ratings are, however, constrained by the moderate scale of operations, susceptibility of profitability to volatility in the raw material prices, competition from other organized and unorganized players and vulnerability to changes in regulations. ICRA also notes that the group is amidst a large capacity expansion of Rs. 360 crores for setting up of a greenfield capacity of 30,000 MTPA under HCPL and a capex of Rs 25-30 crore for a new Good Manufacturing Practices (GMP) complied plant under DGPL to cater to more regulated markets. Given the large size of the greenfield capacity being undertaken, the group remains exposed to project execution risks. The capex under HCPL is being funded through Rs. 270 crore of term loans from banks, Rs. 41 crores of ECB provided by Harcros India LLC (holding company of EIPL) and remaining will be contributed by DGPL. The timely completion of the project without major time and cost overrun or changes in the funding mix will remain a key monitorable.

The stable outlook reflects ICRA's expectation that the group will continue to benefit from its established track record in the industry and healthy ramp up in capacity utilization of the existing capacities going forward.

Key rating drivers and their description

Credit strengths

Long and established track record of the company backed by experienced management and promoter entity- EIPL has been in the business of manufacturing surfactants in the country for more than two decades and is backed by experienced management. The group also benefits from being owned by Harcros Chemicals Inc (US) (Harcros) through its wholly owned subsidiary Harcros (India) LLC (HIL) which is the holding company for the Indian operations. Harcros is one of the largest trader and manufacturer of chemicals in the US market and EIPL has also benefited in terms of market access through HIL's ownership.

EIPL and other group entities have also received funding support from HIL in the form of long tenured loans to fund capex programs.

Diversified product profile with application in numerous industries- EIPL and the group entities benefits from a diversified product profile with no product contributing more than 3-4% of the total revenue. The company also serves various industries through its products e.g. detergents, textile, pharma, agrochemicals, oil & gas etc. With a diversified industry profile wherein there is not a significant dependence on a single industry, the company is expected to be protected against any significant downturns or cyclicity of a particular industry.

Healthy financial risk profile- EIPL's consolidated financial risk profile has remained healthy characterised by healthy operating margins in the range of 14-16% over the course of FY2021 to FY2023 with RoCE of 23.4% in FY2023 as against 34% in FY2022. While the RoCE moderated, it remained healthy. The company's consolidated Total Debt/OPBDITA remained healthy at 2.0x in FY2023 although it moderated from 1.5x in FY2022 with a moderation in the operating profits and increase in the promoter debt for funding capex being undertaken in the group. Going forward, ICRA expects the credit profile of the company to moderate from FY2025 onwards as it undertakes a Rs. 360 crore capex in Harcros Chemicals Private Limited (HCPL) a step-down subsidiary of EIPL. With the project debt being availed largely in FY2025 and part of the project being funded by unsecured loans from HIL, the credit metrics will moderate. However, with the term loan being availed from the banks expected to be of a long tenor, the debt servicing metrics are expected to remain healthy and inline with the rating category.

Credit challenges

Profitability exposed to input cost and forex volatility- EIPL's profitability remains exposed to the volatility in the input prices with key inputs being Ethylene Oxide, lauryl alcohol and other fatty alcohols. Since the group derives majority of its revenues through short term purchase orders, the pricing remains dependent on the prevailing market price and open to competition from others. In scenarios of volatile input prices, the company may not be able to fully pass on the impact of raw material prices to the end users. The company is also exposed to foreign exchange risk given it does not undertake hedging of its exposure. While ICRA notes that a major portion of the revenue is derived through exports for the group, volatility in the foreign currency markets can impact the profitability of the company.

Working capital intensive operations- The group's operations remain working capital-intensive owing to no credit period offered on the purchase of the major raw material i.e. Ethylene Oxide while company has to offer credit period of 60-90 days to its customers majorly in the export markets. Additionally, it also maintains inventory a significant inventory of raw material and work in process inventory.

Exposed to competition- The surfactant market is highly competitive with presence of few large-organised players and several unorganised players as well. As a result, EIPL remain exposed to competitive pressures in the market. In few generic segments of surfactants, the presence of the competition can limit pricing power while categories where specialised products are required by the end users, the competition is not high.

Project execution risks given the large size project being executed in the group – The group is executing a Rs. 360 crore project under HCPL which is a step-down subsidiary of EIPL for setting up a 30,000 MTPA surfactants manufacturing capacity at Dahej, Guajrat. The project will be funded through Rs. 270 crore of term debt from banks, Rs. 41 crores of loans from promoters and remaining through unsecured subordinated loans from DGPL. Given the large size of the project the group will remain exposed to the project execution and ramp up risks once project is commissioned. However, given that the project is in similar line of business and the ultimate holding company Harcros Chemicals Inc US is looking to offtake majority of the production, mitigates risk to some extent. Nevertheless, the timely completion of the project within the proposed capital outlay and timelines will remain a key rating sensitivity.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate going forward supported by healthy cash accruals of Rs. 70-80 crore p.a. going forward on consolidated basis, which should enable the company to meet its debt servicing requirements and contribution towards promoter contribution for the ongoing capex in the group comfortably. The liquidity is also supported by ~Rs. 8 crore of free cash as of February 2024 end and the cushion in the fund based working capital limits which remains utilized to the extent of 50-55%.

Rating sensitivities

Positive factors – The ratings could be upgraded with if there is significant improvement in the scale of operations at the consolidated level, while maintain healthy profitability and liquidity position. Timely commissioning of the ongoing capex under Harcross Chemicals Private Limited within the envisaged costs and healthy ramp up of the same leading to sustained increase in the consolidated cash flow from operations may result in a rating upgrade. A key credit metric that could lead to a rating upgrade would be ability to maintain consolidated Total Debt/OPBDITA below 2.5x on a sustained basis.

Negative factors – There would be pressure on the ratings if there is significant deterioration in the scale or/and profitability at the consolidated level impacting the leverage and coverage indicators along with weakening of the liquidity position of the company may trigger a rating downgrade. Any material delay in executing the ongoing capex and/or larger than expected debt funded capex could also lead to a rating downgrade. A key credit metric that could lead to a rating downgrade would be inability to maintain consolidated interest coverage of more than 3.2x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has used the consolidated financials of the entity to arrive at the ratings.

About the company

Esteem Industries Pvt. Ltd (EIPL) was incorporated in 2001 with the objective of manufacturing Ethoxylated and Propoxylated products which are used in various industries such as Textile, Paints, Cosmetics, and Agriculture. The group is recognized as “Venus Group” in the industry with the administrative office at Fort, Mumbai. The company has manufacturing plants located in Pissurlem (Goa) and Vikramgad near Wada (Maharashtra). The production capacity at the Goa plant is 15000 MTA and Wada plant is at 48,000 MTA in the current year (2024).

In January 2016, the promoter, Mr. Keki. P. Gandhi & Mr. Amol Ashok Walke and Mrs. Anjali Ashok Walke had divested their controlling stake (51%) to a company called M/s. Harcross (India) LLC (HIL), a subsidiary company of M/s. Harcross Chemicals Inc. (HCI), USA. HCI is a major distributor and manufacturer of industrial and specialty chemicals, engaged in the similar business as Esteem Industries Pvt. Ltd. (EIPL). As on 31 March 2023, HIL held 100% stake in EIPL.

Key financial indicators

EIPL Consolidated	FY2022	FY2023
Operating income	918.8	916.5
PAT	102.81	87.53
OPBDIT/OI (%)	16.4%	15.2%
PAT/OI (%)	11.2%	9.6%
Total outside liabilities/Tangible net worth (times)	1.3	1.0
Total debt/OPBDIT (times)	1.5	2.0
Interest coverage (times)	10.4	7.7

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

Chronology of rating history							
Current rating (FY2024)				for the past 3 years			
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 2023 end (Rs. crore)	Date & rating	Date & rating	Date & rating	Date & rating
				31-Mar-24	in FY2023	in FY2022	in FY2021
1	Term loans	1.34	1.07	[ICRA]BBB (Stable)	-	-	-
2	Cash credit	75.0	-	[ICRA]BBB (Stable)	-	-	-
3	LC/BG	24.5	-	[ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple
LC/BG	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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term-Fund based-Cash credit	NA	NA	NA	75.0	[ICRA]BBB (Stable)
-	Long term-Fund based-Term loan	FY2019	~9.8%	FY2025	1.34	[ICRA]BBB (Stable)
-	Short term-Non fund based-LC/BG	NA	NA	NA	24.5	[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities for consolidated analysis

Company Name	DGPL's ownership	Consolidation approach
Esteem Industries Pvt Ltd	Self	Full consolidation
Dyna Glycols Private Limited	100%	Full consolidation
Harcros Chemicals Private Limited	100%	Full Consolidation

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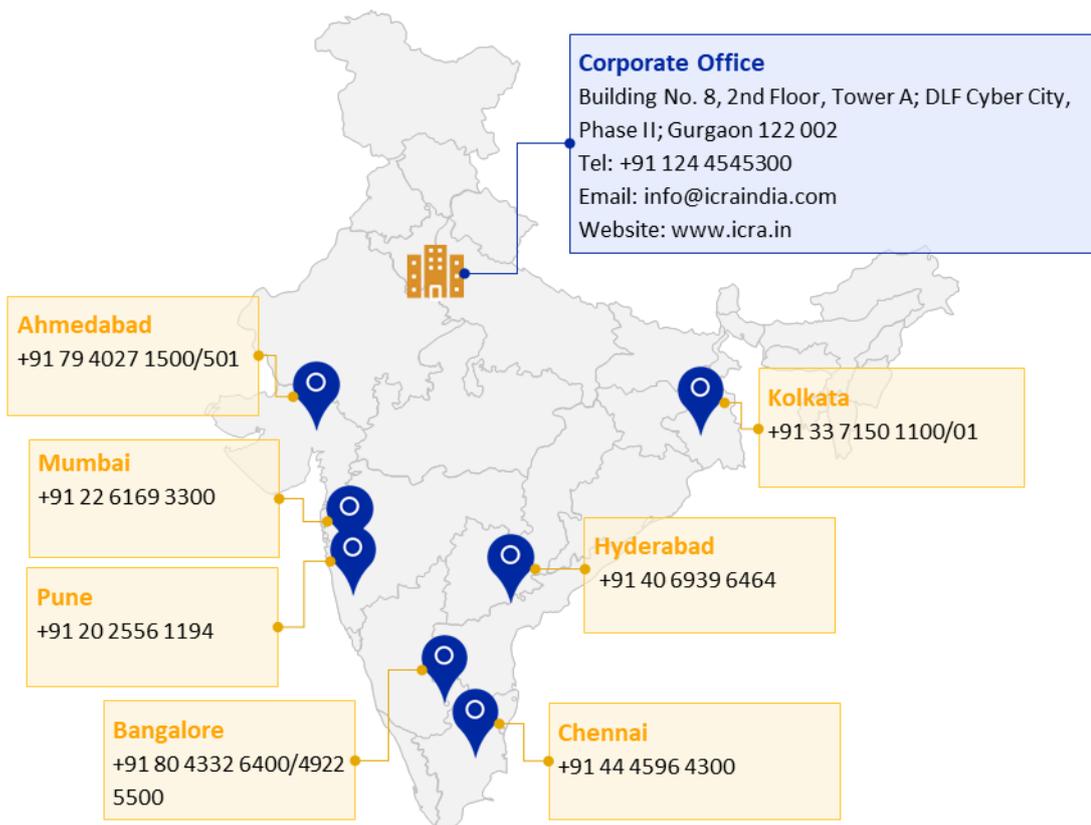
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