

March 31, 2024

DYNA GLYCOLS Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund based-Term loan	18.00	[ICRA]BBB (Stable); Assigned
Long term-Fund based- Cash credit	40.00	[ICRA]BBB (Stable); Assigned
Short term-Non fund based- LC/BG	15.00	[ICRA]A3+; Assigned
Total	73.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to the bank lines of Dyna Glycols Private Limited (DGPL/ the company) factor in the strong parentage and established track record emanating from being part of the Esteem group (comprising of Esteem Industries Private Limited (EIPL, rated [ICRA]BBB (Stable)/[ICRA]A3+), DGPL and its wholly owned subsidiary Harcros Chemicals Private Limited (HCPL)), 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 the 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 although the same will moderate in the near to medium term with sizeable capex being undertaken within the group.

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 Esteem group is in the midst a large capacity expansion of Rs. ~360 crore 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 company will continue to benefit from its strong parentage for being part of the Esteem group, 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- The Esteem group has been in the business of manufacturing surfactants in the country for more than two decades and is backed by an 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. DGPL and other group entities have also received funding support from HIL in the form of long tenured loans to fund capex programs. DGPL also gets access to the established clientele of EIPL and thus benefits from being part of the group.

Diversified product profile with application in numerous industries- DGPL benefits from a diversified product profile with no product contributing more than 3-4% of the total revenue as is the case with the other entities in the group. The company also serves various industries through its products e.g. detergents, textile, pharma, agrochemicals, oil & gas etc. With a diversified industry profile the dependence on a particular industry remains low, the company is expected to be protected against any significant downturns or cyclicalities of a particular industry.

Healthy financial risk profile- DGPL's financial risk profile has remained healthy with uptick in the capacity utilisation over the last couple of years aided by orders being executed for EIPL's customers. The company has been posting RoCE in excess of 40% over the course of FY2021 to FY2023 with operating margins in the range of ~20% for the same period. The credit metrics have also remained healthy with consolidated TD/OPBDITA for DGPL at around 1.0x in FY2023 as against 0.5x in FY2022. The TD/OPBDITA has moderated due to the ECB provided by HIL to HCPL for capex execution for the ongoing capex. The interest coverage remains comfortable at 19.7x in FY2023 as against 23.9x in FY2022. Going forward the credit profile will moderate owing to the large capex being undertaken in HCPL which is a wholly owned subsidiary of DGPL. However the debt servicing indicators are expected to remain healthy given the long tenor bank debt being availed by HCPL which will keep the repayments well spread out.

Credit challenges

Profitability exposed to input cost and forex volatility- DGPL'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 company and 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, they 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 crores project, under HCPL which is a wholly owned subsidiary of DGPL 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 company's liquidity is expected to remain adequate going forward with healthy cash accruals which will be adequate to meet the modest debt repayments in the near to medium term as well as the cash outflow required to fund equity contribution for the project being undertaken in the group. With nominal capex at the standalone DGPL level and healthy cushion in fund based working capital limit the liquidity position is expected to remain adequate.

Rating sensitivities

Positive factors – The ratings may be upgraded in a scenario of improvement in the credit profile of the Esteem group. The ratings may also be upgraded in a scenario of timely commissioning and ramp up of the project being undertaken in the group resulting in an improvement in the leverage and coverage metrics of the group.

Negative factors – The rating may be downgraded in a scenario of weakening of the credit profile of the Esteem group. Any material decline in the revenue and profitability of the company on a sustained basis resulting in the weakening of the leverage and coverage metrics along with the weakening of the liquidity position of the company may result in a rating downgrade. Any material time and cost overruns in the project execution in the Esteem group may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	The assigned rating factors in the implicit support from Esteem Industries Pvt Ltd (rated [ICRA]BBB (Stable)/[ICRA]A3+)
Consolidation/Standalone	The ratings have been assigned factoring in consolidated financials of DGPL which include projected financials of its wholly owned subsidiary Harcros Chemicals Pvt Ltd.

About the company:

Dyna Glycols Private Limited (DGPL) is engaged in manufacturing of surfactant and other chemicals. The Company is specialized in Ethoxylation, Propoxylation, Alkoxylation, EO/PE Block Co-polymerization, Estrification, Sulphonation, Suphation, Phosphation, Condensation, Polymerization, Distillation, Fractional Distillation, Amide Preparation and Formulations. Most of the products are based on chemistry of Ethoxylation and Propoxylation . The products manufactured by the company are consumed / used by vast number of industry segments such as Pharma, Refinery, Paints, Textiles, Leather, Paper, Agro, Metal & Electroplating, and personal care etc. The Company is also specialized in custom manufacturing products as per requirements of the clients. The Companies because of its wide range of products enable its customers to source most of their requirements from one place itself. All the sales made by Dyna Glycols is treated as export because they are located in a special economic zone in Gandhidham, Kutch state of Gujrat. The company complies with all the environment requirements. The production capacity is 36,696 MTPA. The company has a Rs 360 crore capex ongoing, major part of which will be incurred in FY2025 and enhance the capacity by 30,000 MTPA under its wholly owned subsidiary M/s Harcros Chemicals Private Limited (HCPL) which is expected to be commissioned in FY2026.

Key financial indicators

DGPL consolidated	FY2022	FY2023
Operating income	342.8	337.4
PAT	56.5	58.9
OPBDIT/OI (%)	20.1%	19.6%
PAT/OI (%)	16.5%	17.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.5	1.0
Interest coverage (times)	23.9	19.7

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

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
	Type	Amount rated	Amount outstanding as on Dec 2023 end	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
		(Rs. crore)	(Rs. crore)	31-Mar-24	-	-	-
1 Term loans	Long-Term	18.0	-	[ICRA]BBB (Stable)	-	-	-
2 Cash credit	Long-Term	40.0	-	[ICRA]BBB (Stable)	-	-	-
3 LC/BG	Short Term	15.0	-	[ICRA]A3+	-	-	-

*As on December 31, 2023, the loan was yet to be drawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund based-Term loan	Simple
Long term-Fund based- Cash credit	Simple
Short term-Non fund based- 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
NA	Long term-Fund based-Term loan	FY2024	9.8%	FY2030	18.0	[ICRA]BBB (Stable)
NA	Long term-Fund based- Cash credit	NA	NA	NA	40.0	[ICRA]BBB (Stable)
NA	Short term-Non fund based-LC/BG	NA	NA	NA	15.0	[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
Dyna Glycols Private Limited	Self	Full consolidation
Harcros Chemicals Private Limited	100%	Full Consolidation

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