March 17, 2025

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-based/Non-fund based WC limits	91.50	91.50	[ICRA]A1; reaffirmed
Short term – Fund-based/Non-fund based – Others	(85.25)	(85.25)	[ICRA]A1; reaffirmed
Long term/Short term – Fund-based/Non-fund based – Others	(159.00)	(159.00)	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Short term - Non-fund based - Forward cover	3.25	3.25	[ICRA]A1; reaffirmed
Total	**104.75**	**104.75**	

**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, the low customer concentration risk with exports to more than 100 countries and a diversified supplier base.

While the company’s operating margins have remained subdued since FY2023 because of a moderation in the overall gross margins amid increased competitive intensity and inventory destocking by the end-users, the overall cash generation has been healthy. The fund flow from operations has remained at Rs. 38-40 crore and is expected to stay in a similar range in FY2025 and FY2026 as well. Nevertheless, NFDCL’s credit profile 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 improved to 0.67x in FY2024 from 0.84x in FY2023, while the interest coverage ratio improved to 41.7x in FY2024 from 19.2x in FY2023, as the interest costs moderated in FY2024. Going forward, while the profitability is expected to remain in line with the FY2024 levels, the cash flow from operations will enable the company to fund its incremental capex funding requirements.

ICRA also notes that the company has incurred Rs. 130 crore to set up a manufacturing capacity at Saykha, Gujarat which was commissioned in March 2024. However, due to unfavourable market conditions for some of the products being manufactured, the revenue ramp-up from the new capacity has been sub-optimal. However, the management is planning to invest around Rs. 60 crore over the course of FY2026 and FY2027 to make changes in the manufacturing plant to produce more value-added products. The capex will be funded through internal accruals.

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 NFDCL’s profitability remains exposed to the adverse fluctuations in raw material prices owing to the high levels of inventory maintained by the company.

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 its long track record and established position in the dye/pigment segment.

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 categories. Further, the extensive experience of the promoters 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. The operating income stood at Rs. 423.5 crore in FY2024 compared with Rs. 421.4 crore in FY2023, registering a growth of around 1% as volumetric growth was offset by a moderation in realisations. The OPBITDA margins also remained stable at 12.4% in FY2024 as the company passed on the moderation in raw material prices to the end users. While the financial performance has moderated, the credit profile continues to be healthy, reflected in total debt/OPBDITA of 0.67x in FY2024 and interest coverage of 41.7x in FY2024.

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 cyclicality 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 the mass consumption segment, while the value-added colour segment is highly concentrated characterised by the presence of 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 steady cash accruals and healthy unencumbered cash balances of Rs. 86.1 crore as on March 31, 2024 (standalone). ICRA expects the liquidity of the company to remain adequate, going forward, on the back of stable cash flow from operations, a healthy cushion in the working capital limits (average fund-based limit utilisation of 22% for last 12 months ended September 2024 for the limits of Rs. 99 crore) 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	Corporate Credit Rating Methodology Chemicals
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 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 capacity of 4,625 MTPA, including that of its partners. The company has a distributor network spanning over 100 countries.

Key financial indicators (audited)

NFDCL (consolidated)	FY2023	FY2024
Operating income	421.4	423.5
PAT	41.2	38.2
OPBDIT/OI	12.4%	12.4%
PAT/OI	9.8%	9.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.8	0.7
Interest coverage (times)	19.2	41.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years						
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long term	10.00	Mar 17, 2025	[ICRA]A+ (Stable)	Dec 21, 2023	[ICRA]A+ (Stable)	Sep 27, 2022	[ICRA]A+ (Stable)	Jun 30, 2021	[ICRA]A+ (Stable)
							Nov 17, 2022	[ICRA]A+ (Stable)	-	-
Non-fund based WC limits	Short term	91.50	Mar 17, 2025	[ICRA]A1	Dec 21, 2023	[ICRA]A1	Sep 27, 2022	[ICRA]A1	-	-
							Nov 17, 2022	[ICRA]A1	-	-
Non-fund based – Others (Sublimit)	Short term	(85.25)	Mar 17, 2025	[ICRA]A1	Dec 21, 2023	[ICRA]A1	Sep 27, 2022	[ICRA]A1	-	-
							Nov 17, 2022	[ICRA]A1	-	-
Fund-based/ Non-fund based – Others (Sublimit)	Long term/Short term	(159.00)	Mar 17, 2025	[ICRA]A+ (Stable)/ [ICRA]A1	Dec 21, 2023	[ICRA]A+ (Stable)/ [ICRA]A1	Nov 17, 2022	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
Non-fund based - LC, BG	Short term	3.25	Mar 17, 2025	[ICRA]A1	Dec 21, 2023	[ICRA]A1	Nov 17, 2022	[ICRA]A1	-	-
Unallocated limits	Long term/Short term	-	-	-	-	-	Sep 27, 2022	[ICRA]A+ (Stable)/ [ICRA]A1	Jun 30, 2021	[ICRA]A+ (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term - Fund based - Cash credit	Simple
Short term – Fund-based/Non-fund based WC limits	Simple
Short term – Fund-based/Non-fund based – Others	Simple
Long term/Short term – Fund-based/Non-fund based – Others	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 based/Non-fund based WC limits**	NA	NA	NA	91.50	[ICRA]A1
NA	**Short term – Fund-based/Non-fund based – Others**	NA	NA	NA	(85.25)	[ICRA]A1
NA	**Long term/Short term – Fund-based/Non-fund based – Others**	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.	100.00%	Full consolidation
Neelikon Food Dyes & Chemicals (Europe) Ltd	100.00%	Full consolidation
Neelikon Food Dyes & Chemicals (Netherlands) Ltd	100.00%	Full consolidation

Source: Company data

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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.

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