March 28, 2025

Deepak Chem Tech Limited: Rating Reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long Term – Fund Based - Term loans	1202.00	1202.00	[ICRA]A (Stable); reaffirmed
Long Term/Short Term - Fund based/Non-fund based limits	200.00	200.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	**1,402.00**	**1,402.00**	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to Deepak Chem Tech Limited (DCTL/the company) factor in the strong parentage of Deepak Nitrite Limited {DNL, rated [ICRA]AA (Positive)/[ICRA]A1+} and its strategic importance to the latter as the company is an extended arm of the parent entity.

The ratings continue to take into account the long operating track record of the Deepak Group {comprising Deepak Nitrite Limited (DNL, rated [ICRA]AA (Positive)/[ICRA]A1+), Deepak Phenolics Limited (DPL, rated [ICRA]AA (Positive)/[ICRA]A1+ and Deepak Chem Tech Limited (DCTL)} in the chemical industry, its diversified product mix and end-user industries. ICRA notes the Group's leading market position in most product segments across the domestic and global markets. The ratings also continue to factor in the Group's multi-purpose manufacturing facility with significant backward and forward integration with flexibility to change the product mix as per the market requirements. ICRA also notes the Group's technical expertise to handle complex and hazardous chemical processes like nitration, hydrogenation and diazotisation. ICRA also factors in the integrated nature of operations of DCTL within the Deepak group as products being manufactured are largely either a forward integration or a backward integration from the existing operations of the Deepak group. Additionally, the products to be manufactured under the polycarbonate resin project will largely be import substitution product and thus the project is expected to witness healthy ramp up once commissioned.

The ratings, however, will remain constrained by the exposure of DCTL's profitability to the volatility in raw material prices for the products which the company will manufacture, going forward. The ratings are constrained by the project execution risk associated with the ongoing capex in the company. Currently the capex is largely divided into two parts i.e. a Rs. 2016 crore capex program which involves setting up of plants manufacturing benzo tri fluoride (BTF) which was commissioned in March 2024, benzo tri chloride (BTC), concentrated nitric acid (CNA), weak nitric acid (WNA), methyl isobutyl ketone (MIBK), methyl isobutyl carbinol (MIBC), specialty chemicals, ortho toluidine (OT) and a Rs. 5000 crore capex for setting up of polycarbonate (PC) resin plant by end of FY2028. There has been a delay in the execution of the Rs. 2016 crore capex from the earlier envisaged timelines by ~6 to 9 months while the capital outlay has also increased from Rs. 2016 crore earlier to Rs. 2400 crore owing to few changes in scope for the projects and minor cost over run. Additionally, the group under DCTL has embarked on a Rs. 5000 crore capex for setting up a 165 KTPA polycarbonate (PC) resin plant in India. The plant and technology for the PC resin plant has been purchased from Trinseo Plc for a consideration of $ 52.5 million and will involve relocating the plant from Stade, Germany to India. Additionally, the group may explore the possibility of setting up backward integration facilities for the polycarbonate resin plant under DCTL, although the same is still at drawing board stage and ICRA will evaluate the impact on the credit metrics if and when these plans are finalised. Given the ongoing capex plans the group will remain exposed to project execution risk, although the group's track record of adopting new technologies, execution of sizeable Phenol project in past and purchase of PC resin plant with already established technology provides comfort to some extent. Nevertheless, the execution of the planned capital outlays will remain a key monitorable

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit profile will remain stable, driven by its parentage and the expected ramp-up of the plants which will support the cash accruals.

Key rating drivers and their description

Credit strengths

Part of the Deepak Nitrite Group which has a long operating history and established position in global chemical intermediates industry – DNL has been operating in the chemical industry for nearly five decades. Over the years, the company has become a market leader in the domestic market for inorganic intermediates (sodium nitrite and sodium nitrate), nitro toluene and fuel additives. DNL is among the top five global players in xylidines, cumidines, colour intermediates and oximes. It is present in over 30 countries, including the US, the European Union, the East European nations, Japan, ASEAN countries, South Korea and South America.

DPL, a 100% subsidiary of DNL, commissioned its phenol and acetone plant in November 2018. Since the commissioning of its IPA plant in April 2020, DPL's scale and profitability significantly improved. Further, the total capacity of IPA has doubled after the commissioning of the brownfield expansion in December 2021. The domestic demand for phenol and acetone far exceeds the domestic production at present. Moreover, with limited domestic competition, DPL has been able to garner a significant market share in the Indian market.

Import substitution products to support healthy ramp up; part of the production to be captively consumed – The company has various projects under execution, namely benzo tri chloride (BTC), benzo tri fluoride (BTF), concentrated nitric acid (CNA), weak nitric acid (WNA), methyl isobutyl ketone (MIBK), methyl isobutyl carbinol (MIBC), specialty chemicals, ortho toluidine (OT) . Majority of the chemicals will serve as backward and forward integration for the Group, which reduces the offtake risk. Hence, the projects, once completed, should provide an uplift to the cash generation from operations. Additionally, current polycarbonate resin demand is being met through imports and once the PC project under DCTL is commissioned, it will offer a domestic alternative for procuring PC resin and is thus expected to witness healthy ramp up.

Credit challenges

Profitability exposed to volatility in raw material prices – The profitability of the company remains exposed to the volatility in raw material prices. As the products are largely of commodity nature, the profitability may be impacted when there is a significant volatility in raw material prices. However, the risk is partly mitigated by the forward/backward integration of the products within the complete value chain of the Deepak Nitrite Group.

Project execution risks due to large-sized capex over the near to medium term – The company plans to undertake sizable capex over the course of FY2026 to FY2028, which will expose the company to project execution risks and will lead to the moderation in the credit metrics for the group as well. ICRA also notes that the polycarbonate resin project is a large size capex, and the company will remain exposed to the project execution risk for the project given the lumpy nature of the investment. With the sizeable capex being executed in a short span of time and most of it being lumpy in nature will lead to moderation in the credit metrics of the group through to FY2028. However, once the projects are commissioned the overall credit profile of the group will witness improvement from FY2029 onwards. The timeliness of execution of the capex and within the capital outlay will remain key monitorable. However, the group's track record of adopting new technologies, execution of sizeable Phenol project in past and purchase of PC resin plant with already established technology provides comfort to some extent.

Liquidity position: Adequate

DCTL's liquidity profile is expected to remain adequate, as the capex is being funded in a mix of debt/equity from the promoter company and the working capital requirements will be largely met by the sanctioned working capital limits. The company has sanctioned working capital limits to overcome any liquidity event, which, along with expectation of enhanced promoter support in a scenario of liquidity mismatches and moratorium on repayments in the near term, is expected to keep the liquidity profile adequate. The Group's free cash balance and liquid investments were at ~Rs. 776 crore as on December 31, 2024.

Rating sensitivities

Positive factors – The ratings can be upgraded if the planned projects get commissioned within timelines and estimated capital outlay and subsequently stabilise and generate healthy cash accruals. An improvement in the credit profile of the parent group could also lead to an upgrade.

Negative factors – Any material time and cost overruns in the project, and/or inability of the company to fully operationalise the plant in a timely manner may trigger a downgrade. Also, weaker-than-expected revenue and profitability, having an adverse impact on the company's overall leverage and coverage metrics, would weigh on the rating. Weakening of the linkages with the parent group and/or weakening of the credit profile of the parent may also result in a downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemical
Parent/Group support	Group company: Deepak Nitrite Limited The ratings consider the likelihood of the parent, DNL, extending support to DCTL, should the need arise. The analysts have followed a parent-support uplift approach while rating DCTL's bank lines with DNL as the parent. DCTL is a wholly-owned subsidiary of DNL.
Consolidation/Standalone	Standalone

About the company

Deepak Chem Tech Limited (DCTL) (formerly known as Deepak Clean Tech Limited) was incorporated on October 9, 2020 and is an wholly owned subsidiary of Deepak Nitrite Limited (DNL). The key objective of the company involves manufacturing of various basic and fine specialty chemicals. The proposed chemicals shall be sold in the open markets as well as in group companies. Some of the chemical products the company intends to manufacture include Benzo Tri Chloride (BTC), Benzo Tri Fluoride (BTF), Concentrated Nitric Acid (CNA), Weak Nitric Acid (WNA), Methyl Isobutyl Ketone (MIBK), Methyl Isobutyl Carbinol (MIBC), Specialty Chemical, Ortho Toluidine (OT).The company will also be setting up a 165 KTPA polycarbonate resin plant by FY2028 in Dahej.

Key financial indicators (Audited/Provisional)

Standalone – DCTL	FY2023	FY2024
Operating income	0.0	0.9
PAT	-0.7	-7.7
OPBDIT/OI	-	-960.5%
PAT/OI	-	-894.2%
Total outside liabilities/Tangible net worth (times)	0.06	1.1
Total debt/OPBDIT (times)	-1.2	-60.0
Interest coverage (times)	-14.5	-22.9

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 amortization

Key financial indicators (Audited/Provisional)

Consolidated	FY2023	FY2024	9MFY25*
Operating income	7,992	7,713	6,102
PAT	852	811	495

OPBDIT/OI	16.4%	15.0%	12.7%
PAT/OI	10.7%	10.5%	8.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	-
Total debt/OPBDIT (times)	0.0	0.2	-
Interest coverage (times)	49.2	76.7	42.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	Mar 28, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long term	1202.00	[ICRA]A (Stable)	09-Jul-2024	[ICRA]A (Stable)	-	-	-	-	-	-
Fund and non-fund based limits	Long term/ Short term	200.00	[ICRA]A (Stable)/ [ICRA]A2+	09-Jul-2024	[ICRA]A (Stable)/ [ICRA]A2+	11-Mar-2024	[ICRA]A (Stable)/ [ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Short term -Commercial Paper programme	Simple
Long Term/Short Term - Fund based/Non-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
NA	**Term Loans**	March 2024	NA	March 2036	1202.00	[ICRA]A (Stable)
NA	**Fund and non-fund based limits**	NA	NA	NA	200.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

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

Varun Gogia
+91 987 115 6542
varun.gogia1@icraindia.com

Pawankumar Jagdale
+91 704 559 5212
pawankumar.jagdale@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

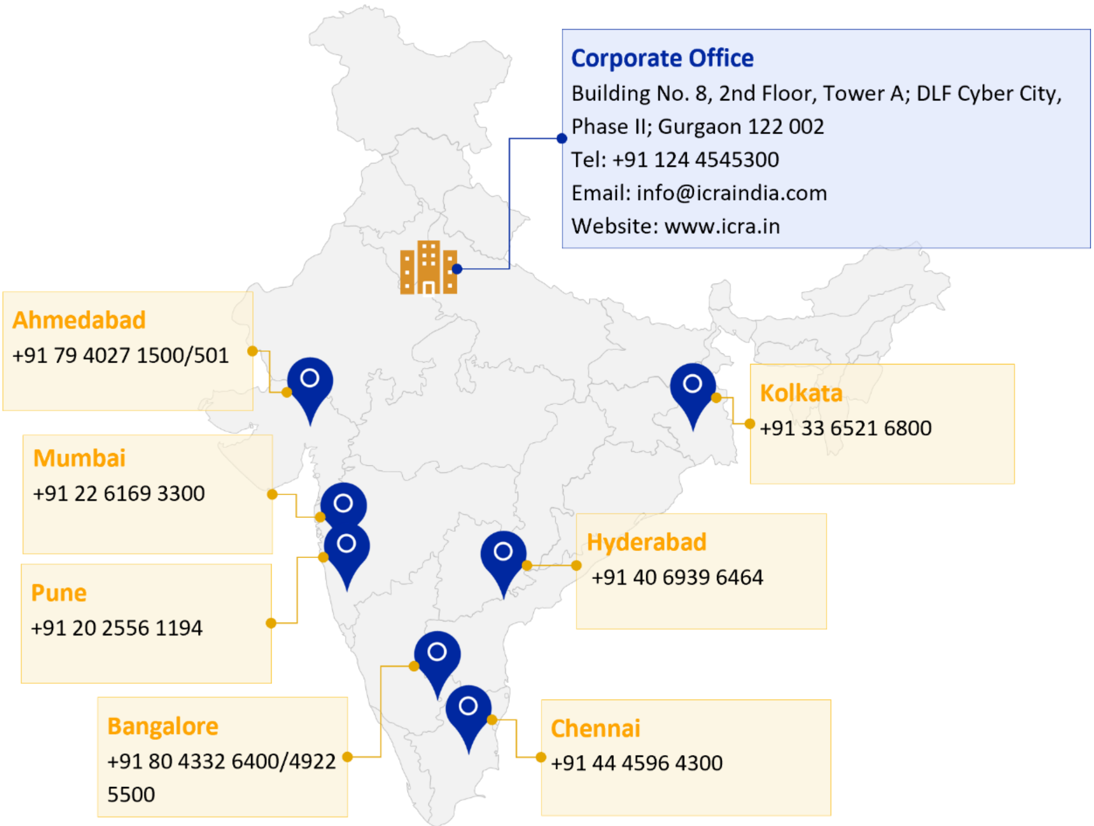
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.