# Archean Chemical Industries Private Limited

April 16, 2018

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund based-Term Loan | 599.00 | 240.25 | [ICRA]D; Reaffirmed |
| Fund based- Working Capital Facilities | 99.00 | 53.41 | [ICRA]D; Reaffirmed |
| Long-term, Unallocated limits | 0.00 | 404.34 | [ICRA]D; Reaffirmed |
| **Total** | **698.00** | **698.00** | |

*Instrument details are provided in Annexure-1

## Rating action

ICRA has reaffirmed the long -term rating of [ICRA]D (pronounced ICRA D) assigned to the. Rs. 240.25 crore[1] (revised from Rs. 599.0 crore) term loans, Rs 53.41 crore fund-based working capital facilities (revised from Rs 99.00 crore), and Rs 404.34 crore long-term fund-based unallocated facilities (revised from Rs 0.0 crore) of Archean Chemical Industries Private Limited (ACIPL/ 'the company')[2].

## Rationale

The rating reaffirmation takes into account the continuing delays in debt servicing following from the large delay in achieving full commercial operation, the resultant cost overrun which reflected in incremental losses, and an unfavourable debt repayment schedule. ICRA also notes that, management had proposed a restructuring of the debt under the S4A restructuring scheme during FY2017, and subsequently the lenders had approved it in March 2017 (with effect from October 2016) wherein the banks had converted part of the debt into equity / Optionally Convertible Debentures (OCDs). Nevertheless, the company continues to post substantial losses due to the weak international prices of its products and hence continues to delay on its restructured debt obligations. The promoters have been unable to infuse the requisite additional funds due to the weak financial profile of the Archean Group.

However, ICRA considers the improvement in the production volumes of the bromine and industrial salt during 9M FY2018 as well as stabilisation in Sulphate of Potash (SOP) production. ICRA also notes that, the offtake agreements signed for salt and the robust market demand for bromine mitigates the business risk significantly. Owing to lack of funds required for meeting working capital requirements, company had shut down its plant for two to three months during FY2017.

## Scenarios for Rating Upgrade

Improvement in salt and SOP sale volumes and sustained improvement in operating profitability aiding in meeting the debt obligations in a timely manner.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

## Key rating drivers

## Credit strengths

**Diversified product portfolio -** ACIPL manufactures industrial salt, bromine and SOP in its integrated marine chemicals facility. During FY2018, the company witnessed improvement in production of all the three products. however, owing to lower cash accruals and lack of sufficient funding, capacity utilisation remains low at an absolute level.

**Integrated manufacturing plant provides cost advantages in the manufacturing process –** ACIPL's integrated manufacturing plant is located at Hajipir near Rann of Kutch (Gujarat). The company uses the abundant and unique Rann brine as raw material and. this provides a cost advantage relative to the other producers. Distinctive location of Rann of Kutch acts as a major entry barrier for newer players as available land has already been taken up by the existing players, including ACIPL.

**In-place marketing arrangements reduce business risks for to a large extent -** The Company has long-term offtake agreement with Sojitz Corporation of Japan, an equity investor in the project, for the entire production quantity of industrial salt and this has reduced the company's business risk significantly given the contribution of salt to the overall revenue mix. The marketing of bromine, the other key product, has also been successful with the company able to acquire a number of new customers.

## Credit challenges

**Delays in debt servicing –** The company continues to delay on its debt obligation commitments since current scale of operations and cash accruals are insufficient to meet the repayments despite the debt restructuring completed in October 2016. Lower scale of operations is mainly on account of lack of availability of funds required for meeting working capital requirements.

The initial targeted COD for the project was April 2012, whereas, the company had been able to achieve completion only by June 2015. The large delay was due to multiple factors such as delay in receipt of approvals, heavy rainfall and changes in scope of the project. However, company didn't reschedule the repayments and continued to service the term loans. This, in addition to the operational losses and substantial working capital requirements, has strained the liquidity of the company.

**Subdued prices of SOP & salt and lower production volume impacting the profitability -** Selling prices of industrial salt and SOP has remained subdued in line with global prices trend and this has impacted the overall profitability of the company.

**Financial Profile is characterised by levered capital structure and modest coverage indicators –**Weakened profitability since last few years has significantly deteriorated company's net worth position. This coupled with high debt levels has resulted in highly levered capital structure with the gearing as on March 2017at 9.7 times. Owing to lower operating profits, interest cover further declined to 0.7 times during FY2017 compared to 1.0 times during FY2016.

**Company's operations are exposed to risk of excessive rain fall –** Company's operations are exposed to risk of excessive rain fall which can adversely impact the quality of key raw materials as well as operational stoppage impacting the scale of production.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

Corporate Credit Rating Methodology

Rating Methodology for Entities in Chemical Industries

## About the company:

Incorporated in July 2009, ACIPL has set up an integrated marine chemicals complex for producing sulphate of potash (SOP), industrial salt and bromine. The project was commissioned in June 2015. The manufacturing plant is located in Hajipir, in the Kutch district of Gujarat. The integrated complex utilizes naturally available brine flowing over marine mineral deposits in the Rann of Kutch. The Archean Group is already one of the leading producers of industrial salt in the country; through this project it has also become the first domestic manufacturer of SOP.

ACIPL is part of the Archean Group, which is a conglomerate with businesses across building materials, mining & minerals, industrial chemicals & fertilizers, shipping & shipbuilding, oil & gas, and renewable energy industries.

In FY2017, the company reported a net loss of Rs. 73.24 crore on an operating income of Rs. 288.35 crore, as compared to a net loss of Rs. 88.63 crore on an operating income of Rs. 341.36 crore in the previous year.

## Key financial indicators (audited)

| | FY 2016 | FY 2017 |
|---|---|---|
| Operating Income (Rs. crore) | 341.4 | 288.4 |
| PAT (Rs. crore) | -86.6 | -73.2 |
| OPBDIT/ OI (%) | 29.7% | 24.3% |
| RoCE (%) | 3.4% | -0.8% |
| | | |
| Total Debt/ TNW (times) | 8.7 | 9.7 |
| Total Debt/ OPBDIT (times) | 9.8 | 13.1 |
| Interest coverage (times) | 1.0 | 0.7 |
| NWC/ OI (%) | 7% | -3% |

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

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2019) Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date &Rating Apr 2018 | Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Nov 2016 | Date & Rating in FY2016 Jan 2016 | Date & Rating in FY2014 Oct 2015 |
|---|---|---|---|---|---|---|---|---|
| 1 | Term loans | Long Term | 240.25 | 240.25 | **[ICRA]D** | **[ICRA]D** | **[ICRA]D** | **[ICRA]BB- Rating Suspended** |
| 2 | Fund-based facilities | Long Term | 53.41 | **53.41** | **[ICRA]D** | **[ICRA]D** | **[ICRA]D** | **[ICRA]BB- Rating Suspended** |
| 3 | Long-term, Unallocated facilities | Long Term | 404.34 | **404.34** | **[ICRA]D** | - | - | - |

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction* | Coupon Rate* | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loans-1 | FY2011 | 13.55% | FY2020 | 77.65 | [ICRA]D |
| NA | Term Loans-2 | FY2011 | 13.55% | FY2020 | 75.69 | [ICRA]D |
| NA | Term Loans-3 | FY2011 | 13.55% | FY2020 | 36.91 | [ICRA]D |
| NA | Working capital Term Loans | FY2018 | 11.90% | FY2021 | 50.00 | [ICRA]D |
| NA | Cash Credit | NA | NA | | 53.41 | [ICRA]D |
| NA | Long-term, Unallocated | NA | NA | | 404.34 | [ICRA]D |

Source: Archean Chemical Industries Private Limited

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## 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.

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