Archean Chemical Industries Private Limited Revised

August 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures (NCD) (Proposed)	0.00	840.00	Provisional [ICRA]B (Stable); Assigned
Fund based-Term Loan	240.25	240.25	[ICRA]D; Outstanding
Fund based- Working Capital Facilities	53.41	53.41	[ICRA]D; Outstanding
Long-term, Unallocated limits	404.34	404.34	[ICRA]D; Outstanding
Total	**698.00**	**1538.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has assigned a long-term rating of Provisional [ICRA]B (pronounced Provisional ICRA B) to the Rs. 840-crore[1] proposed NCD programme of Archean Chemical Industries Private Limited (ACIPL/'the company')[2]. ICRA also has a rating of [ICRA]D (pronounced ICRA D) outstanding on the Rs. 293.66-crore fund-based bank facilities and the Rs. 404.34-crore fund-based unallocated facilities

Rationale

The provisional rating assigned to the Rs. 840.0-crore proposed NCD programme takes into account the complete refinancing of the existing bank debt by the new lender / investor – India RF, a joint venture between Piramal Enterprises Limited and Bain Capital Credit – in September 2018. The provisional rating is subject to the company adhering to the terms of the issuance as shared with ICRA. The finalisation of the rating would be completed once the executed documentation is shared.

ACIPL has been servicing its existing debt obligations with some delays due to the stressed financial position arising out of the long delays in project commissioning/ stabilisation and the resultant unfavourable debt amortisation schedule. The proposed refinancing will substantially reduce the near-term repayment commitments as the mandatory coupon payout is low (10-12%) and the mandatory principal repayment is during the end of the debt tenure spanning six years. However, any excess cash flows would be applied towards additional coupon (to meet the defined coupon on the debt) and towards principal prepayment. ICRA also takes comfort from the provision of a debt service reserve account (DSRA) during the tenure of the loan with the initial requirements being built out of the issuance.

Through this refinancing exercise, ACIPL would also receive funding for the planned bromine expansion project, which is critical considering the robust profitability witnessed in this segment in the recent past. The long-term offtake agreement with Sojitz Corporation of Japan for salt offtake provides comfort with regards to ACIPL's revenue stability. Additionally, a portion of the NCD issuance is also budgeted towards working capital and this is likely to aid the company in achieving higher harvesting and transportation of salt, thereby aiding the overall financial profile.

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[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*

The rating, however, continues to be constrained by the weak financial profile of the company with large accumulated losses and an adverse capital structure. The rating also continues to be exposed to factors such as vagaries of nature on the company's production, given the usage of naturally available brine, fluctuating international prices for the key products, and operational issues. ACIPL's sulphate of potash (SOP) segment has been underperforming, given the raw materials quality issues faced by the company, on input side, and the lower amounts of the KTMS (key intermediate) harvested. The rating also considers its weak financial track record, with the debt having been restructured by the lenders through the S4A route, and the stressed financial profile of most of its Group entities.

Outlook: Stable

ICRA believes that the company will witness healthy sales growth across all the three product segments owing to robust domestic and international demand. The outlook will be revised to Positive if substantial improvement in salt and bromine sale volume/ realisation result in sustained improvement in the operating profitability. The outlook will be revised to Negative if cash accruals are not sufficient to meet the repayment obligations, or, if any adverse fluctuation in exchange rate or commodity prices impact the profitability, thereby affecting the company's liquidity position.

Key rating drivers

Credit strengths

Refinancing of existing bank debt through NCDs – ACIPL has proposed to raise Rs. 840 crore by issuing NCDs to India RF (joint venture between Piramal Enterprises Limited and Bain Capital Credit). The proposed facilities will substantially reduce the near to medium-term repayment requirements and also provide funding for the ongoing bromine expansion capex programme.

Diversified product portfolio – ACIPL manufactures industrial salt, bromine and SOP in its integrated marine chemicals facility. In FY2018, the company witnessed an improvement in the production of all the three products, which supported its overall revenue growth on the back of improved volume and realisation supported by robust domestic and international demand. Refinancing through the issuance of NCDs will support the required funding for achieving capacity expansion for bromine, which is a key contributor to the company's profitability.

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.

Marketing arrangements in place likely to reduce business risks to a large extent – The company has a long-term offtake agreement with Sojitz Corporation of Japan for the entire production quantity of industrial salt and this has reduced its 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 ACIPL able to acquire a number of new customers.

Credit challenges

Delays in debt servicing – The company continues to delay on its debt obligation commitments towards bank facilities, since its current scale of operations and cash accruals are insufficient to meet the timely repayments despite the debt restructuring completed in October 2016. Lower scale of operations is mainly on account of the lack of availability of the funds required for meeting ACIPL's 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 deferment in the receipt of approvals, heavy rainfall and changes in the scope of the project. However, it did not reschedule the repayments and continued to service the term loans. This, in addition to the operational losses and substantial working capital requirements, has strained its liquidity profile.

Higher interest cost on proposed NCDs – High repayment obligations owing to higher interest cost on NCDs as well as the principal repayment commencing from FY2020 will stress the liquidity. However, the mandatory payments are restricted to 10-12% coupon till FY2025 and the differential interest payment will be paid along with mandatory payments based on cash accruals generated during the initial years, or, a redemption premium will be paid at the end of the tenure

Subdued prices of SOP and salt and lower production volume impacting the profitability – The selling prices of industrial salt and SOP have remained subdued in line with global prices and this has impacted the overall profitability of the company. Although, there has been improvement in prices for salt in the recent fiscals, any adverse fluctuations in the demand-supply scenario and exchange rates will remain the credit concern.

Financial profile characterised by highly levered capital structure and modest coverage indicators – Weakened profitability, over the last few years, has significantly worsened the company's net worth. This coupled with high debt levels has resulted in a highly levered capital structure. Owing to moderate profitability, the debt coverage metrics also remained modest.

Operations exposed to risk of excessive rain fall – The company's operations are exposed to the risk of excessive rain fall, which can adversely impact the quality of key raw materials as well as lead to an 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 utilises naturally available brine flowing over the marine mineral deposits in the Rann of Kutch. The Archean Group is already one of the leading producers of industrial salt in the country and 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 and minerals, industrial chemicals and fertilisers.

In FY2018, on a provisional basis, the company reported a net loss of Rs. 66.0 crore on an operating income (OI) of Rs. 437.9 crore, as compared to a net loss of Rs. 73.2 crore on an OI of Rs. 288.4 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	288.4	437.9
PAT (Rs. crore)	-73.2	-66.0
OPBDIT/ OI (%)	24.3%	22.7%
RoCE (%)	-0.8%	3.3%
Total Debt/ TNW (times)	9.7	(24.9)
Total Debt/ OPBDIT (times)	13.1	9.7
Interest Coverage (times)	0.7	1.0
NWC/ OI (%)	-3%	0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating	Date &Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016
Sr. No.	**Instrument**	**Type**			**Aug 2018**	**Apr 2018**	**Nov 2016**	**Jan 2016**	**Oct 2015**
1	NCDs (Proposed)	Long Term	840.00	**840.00**	**Provisional [ICRA]B (Stable)**	-	-	-	-
2	Term loans	Long Term	240.25	**240.25**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]BB-; rating suspended**
3	Fund-based facilities	Long Term	53.41	**53.41**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	
4	Long-term, Unallocated facilities	Long Term	404.34	**404.34**	**[ICRA]D**	**[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	NCD (Proposed)	FY2019	17.00%	FY2025	840.00	Provisional [ICRA]B(Stable)
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

Corrigendum

Document dated August 30, 2018 has been corrected with revision as detailed below –

Section related to instrument details in table of Summary of Rated Instrument on page 1 has been revised: Rated instrument for which Provisional [ICRA]B(Stable) rating was assigned has been revised to 'Non-convertible debenture (NCD) (Proposed)' from 'Fund based- Term loans'.

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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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For more information, visit www.icra.in

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