Archean Chemical Industries Private Limited

December 07, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action[1]
Non-Convertible Debenture Programme	840.00	840.00	[ICRA]B (Stable); Finalised
Fund-based -Term Loan	240.25	0.0	[ICRA]D; Withdrawn
Fund-based - Working Capital Facilities	53.41	0.0	[ICRA]D; Withdrawn
Long-term, Unallocated	404.34	0.0	[ICRA]D; Withdrawn
Total	**1538.00**	**840.00**	

*Instrument details are provided in Annexure-1

Rationale

In August 2018, ICRA had assigned a long-term rating of Provisional [ICRA]B (pronounced provisional ICRA B), with a Stable outlook, to the Rs. 840.00-crore proposed NCD programme of Archean Chemical Industries Private Limited (ACIPL). The company has completed the NCD issuance and has shared the executed version of the transaction documents with ICRA. Since the executed version of the transaction documents are in line with the draft terms shared earlier, the said rating of [ICRA]B has now been confirmed as final.

ICRA has also withdrawn the rating on the Rs 293.66 crore fund based bank facilities and Rs 404.44 crore unallocated facilities of ACIPL as there are no amounts outstanding against the same following the NCD refinancing.

The assigned rating 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 (JV) between Piramal Enterprises Limited and Bain Capital Credit. The refinancing has substantially reduced ACIPL's near term repayment commitments as the mandatory coupon payment is moderate (10-12%) and the mandatory principal repayment falls due at the end of the debt tenure of six years. However, any excess cash flows would be applied towards additional coupon payment earlier (to meet the defined coupon on the debt of 17%) 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.

Outlook: Stable

ICRA expects the company to witness healthy sales growth across all its 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 results in sustained improvement in operating profitability. The outlook will be revised to Negative if cash accruals are not sufficient to meet repayment obligations, or if any adverse fluctuation in exchange rate or commodity prices impact the profitability, thereby affecting the company's liquidity position.

[1] *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

Refinancing of existing bank debt through NCDs – ACIPL has raised Rs. 840 crore by issuing NCDs to India RF (JV between Piramal Enterprises Limited and Bain Capital Credit). This has substantially reduced its near to medium term repayment requirements and has provided funding for its ongoing bromine expansion capex programme.

Diversified product portfolio – ACIPL manufactures industrial salt, bromine and sulphate of potash (SOP) at 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 amid 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 profitability driver for the company.

Integrated manufacturing plant provides cost advantages in manufacturing process – ACIPL's integrated manufacturing plant is located at Hajipir near the Rann of Kutch (Gujarat). The company uses the abundant and unique Rann brine as raw material, which provides it with a cost advantage relative to other producers.

Marketing arrangements in place likely to reduce business risks to a large extent – The company has a long-term off-take agreement with Sojitz Corporation of Japan for the entire production quantity of industrial salt. 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 for the product category.

Credit challenges

Delays in project commencement – The initial targeted COD for the project was April 2012, but the company was unable to achieve completion before 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. In addition to its operational losses and substantial working capital requirements, this 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 ACIPL's liquidity position. 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 along with lower production volume impacting profitability – The selling prices of industrial salt and SOP have remained subdued in line with global prices. This has impacted the overall profitability of the company. Although there has been improvement in salt prices in recent fiscals, any adverse fluctuations in the demand–supply scenario and exchange rates will remain a credit concern.

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

Operations exposed to risk of excessive rainfall – The company's operations are exposed to the risk of excessive rainfall, which can adversely impact the quality of key raw materials as well as lead to an operational stoppage, impacting the scale of production.

Liquidity Position

The company's liquidity position remained weak till refinancing, owing to moderate operating profits on the back of lower capacity utilisation along with substantially higher debt repayment and working capital requirement. However, post NCD funding, the liquidity position has been supported by sufficient available capital to repay its bank borrowings and fund its capital expenditure plans.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]() [Rating Methodology for Entities in Chemical Industries]()
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements

About the company

Incorporated in July 2009, ACIPL has set up an integrated marine chemicals complex for producing sulphate of potash, industrial salt and bromine. The project was commissioned in June 2015. The manufacturing plant is located at Hajipir, in the Kutch district of Gujarat. The integrated complex utilises the naturally available brine flowing over the marine mineral deposits at 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:

Sr. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2019) Date &Rating Dec 2018	Date &Rating Aug 2018	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 FY2016 Oct 2015
1	NCDs	Long Term	840.00	**840.00**	**[ICRA]B; (Stable)**	**Provisional [ICRA]B; (Stable)**	-	-	-	-
2	Term loans	Long Term	240.25	**240.25**	**[ICRA]D; Withdrawn**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]BB-; rating suspended**
3	Fund-based facilities	Long Term	53.41	**53.41**	**[ICRA]D; Withdrawn**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	
4	Long-term, Unallocated facilities	Long Term	404.34	**404.34**	**[ICRA]D; Withdrawn**	**[ICRA]D**	**[ICRA]D**	-	-	

Source: ICRA

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
INE128X07028	NCDs	FY2019	17.00%	FY2025	840.00	[ICRA]B (Stable)

Source: ICRA

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