November 07, 2019

Alkali Metals Limited: Long-term rating upgraded to [ICRA]BB+(Stable) and short-term rating reaffirmed at [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	18.00	18.00	[ICRA]BB+(Stable) upgraded from [ICRA]BB(Stable)
Non-Fund Based Limits	8.50	8.50	[ICRA]A4+ reaffirmed
Unallocated Limits	15.50	15.50	[ICRA]BB+(Stable) upgraded from [ICRA]BB(Stable)/[ICRA]A4+ reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade takes into consideration the consistent increase in Alkali Metals Limited's (AML/the company) operating income (OI) over the last two years and expected improvement in revenues over the medium term with receipt of the Current Good Manufacturing Practice (CGMP) from the United States Food and Drug Administration (USFDA) for its Vishakhapatnam unit in May 2019. Also, the company's financial risk profile is comfortable with a gearing of 0.36 times and TOL/TNW at 0.36 times as on March 31,2019 and interest coverage of 2.70 times for FY2019. The ratings factor in its diverse product portfolio with presence in sodium derivatives, pyridine derivatives, fine chemicals and pharmaceutical APIs, along with its vast track record in manufacturing of sodium derivatives for more than three decades. The ratings note the moderate customer concentration risk with top five customers contributing to 34% of total revenues in FY2019.

The ratings are, however, constrained by AML's low return indicators with RoCE at 5-6% over the last three years on account of low capacity utilisation. The ratings factor in its weak liquidity position as reflected by high utilisation of cash credit limits in the past 12 months owing to high inventory levels. ICRA also notes the company's modest scale of operations with revenues of Rs. 71.6 crore in FY2019 with its profitability exposed to foreign exchange fluctuations (as exports account for a significant portion of AML's total sales) and to volatility in raw material prices.

Key rating drivers and their description

Credit strengths

Diverse product portfolio with extensive track record in manufacturing of sodium derivatives – AML manufactures products across four categories: sodium derivatives, pyridine derivatives, fine chemicals and pharmaceutical APIs. AML has a strong market position in manufacturing of sodium derivatives such as sodium amide, sodium azide, and sodium hydride with a track record of more than three decades. These three sodium derivatives have been major products for the company and together contributed to 54% and 52% of its overall sales in FY2019 and Q1 FY2020, respectively.

Moderate customer concentration risk – The customer concentration remained moderate with top five customers accounting for 33% of total sales in FY2019. The customer base consists of established names with repeat orders from both domestic and export customers.

Healthy capital structure and coverage indicators – The company's capital structure remained comfortable with a gearing of 0.36 times as on March 31, 2019 owing to low debt levels with the debt being primarily working capital in nature. The coverage indicators remained moderate with interest coverage of 2.70 times and NCA/TD of 19% for FY2019.

Credit challenges

Modest scale of operations – The revenues remained modest at Rs. 71.6 crore in FY2019, although the same increased from Rs. 58.1 crore in FY2017 owing to an increase in sales from sodium derivatives, fine chemicals and APIs, despite a decline in sales from amino pyridines. The revenues are likely to improve in the medium term with receipt of CGMP from USFDA for its Vishakhapatnam unit in May 2019.

Weak liquidity position – The liquidity position remained weak as reflected by high utilisation of working capital limits on account of high inventory levels. The inventory is high as AML maintains buffer inventory to meet the sudden export orders along with the long process time due to the various stages of the manufacturing process. Moreover, with more than 50% of the raw materials being imported, the inventory levels are high owing to its long lead time for imports. The company primarily imports sodium metal and pyridine.

Low return indicators – The RoCE remained low at 5-6% over the last few years on account of low capacity utilisation of its facilities. The Vishakhapatnam unit was started in 2011-2012 at a cost of Rs. 38.7 crore to manufacture API and fine chemicals. However, the capacity utilisation remained significantly low due to delay in getting CGMP approvals, which impacted its revenues and profitability.

Liquidity position: Stretched

The liquidity position is stretched with high average utilisation of working capital limits in the past 12 months due to high inventory levels. The liquidity position is expected to remain stretched with high inventory levels. Absence of repayment obligations and capacity expansion plans support the liquidity to an extent.

Rating sensitivities

Positive triggers – ICRA could upgrade AML's rating if there is substantial growth in revenues, along with an improvement in operating margins and liquidity position. Specific credit metrics that could lead to an upgrade of AML's rating include RoCE above 10% on a sustained basis.

Negative triggers – Negative pressure on AML's rating could arise if there is decline in revenues or operating margins resulting in lower cash accruals. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for rating downgrade. Specific credit metrics that could lead to a downgrade of AML's rating include interest coverage below 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company

AML was set up in 1968 as a joint venture with Andhra Pradesh Industrial Development Corporation Limited (APIDC). Initially, the company produced sodium metal, but exited this business in 1989 as rising power costs made manufacturing sodium metal unviable. Subsequently, it diversified into manufacturing derivatives based on sodium metal, picoline and other cyclic compounds. Its products can be classified as sodium derivatives, amino pyridines, fine chemicals and active pharmaceutical ingredients (APIs) such as Metformin. Its products are sold primarily to pharmaceutical companies for further processing and conversion into bulk drugs.

Key financial indicators

	FY2018	FY2019	Q1 FY2020
Operating Income (Rs. crore)	65.32	71.56	21.40
PAT (Rs. crore)	1.31	1.69	1.90
OPBDIT/ OI (%)	10.42%	10.37%	14.56%
RoCE (%)	5.65%	6.60%	
Total Debt/ TNW (times)	0.36	0.36	
Total Debt/ OPBDIT (times)	2.66	2.46	
Interest coverage (times)	2.70	2.74	5.00
NWC/ OI (%)	28%	26%	

Source: Annual Reports and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 07 Nov 2019	Date & Rating in FY2019 20 Sep 2018	Date & Rating in FY2018 22 Mar 2018	Date & Rating in FY2017 21 Dec 2016
1	Fund Based – Cash Credit Limits	Long Term	18.00		[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB(Stable)
2	Non Fund Based Limits	Short Term	8.50	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4
3	Unallocated Limits	Long Term/Short Term	15.50	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/A4 +	[ICRA]BB (Stable)/A4	[ICRA]BB(Stable)/A4

Amount in Rs.crore

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	Cash Credit				18.00	[ICRA]BB+(Stable)
NA	Non fund based limits				8.50	[ICRA]A4+
NA	Unallocated limits				15.50	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Alkali Metals Limited

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