November 26, 2020

Alkali Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Term Loan Facilities	0.00	5.15	[ICRA]BB+(Stable) reaffirmed
Fund based- Working Capital Facilities	18.00	18.00	[ICRA]BB+(Stable) reaffirmed
Non-fund based-Working Capital Facilities	8.50	9.52	[ICRA]A4+ reaffirmed
Unallocated Limits	15.50	9.33	[ICRA]BB+(Stable)/ [ICRA]A4+ reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Alkali Metals Limited's (AML/the company) vast track record in manufacturing of sodium derivatives for more than three decades and its diverse product portfolio with presence in sodium derivatives, pyridine derivatives, fine chemicals and active pharmaceutical ingredients (API). Also, the company's financial risk profile is comfortable with a gearing of 0.4 times and TOL/TNW of 0.6 times as on September 30, 2020 and interest coverage of 2.7 times in FY2020. Although the interest coverage declined to 1.5 times in H1 FY2021, the same is expected to improve and remain over 2.0 times in FY2021. Further, the liquidity position improved in the last few months, as reflected from reduced utilisation of limit, with the company availing Covid-19 Emergency Credit Line (CECL) of Rs. 1.80 crore in July 2020 and Guaranteed Emergency Credit Line (GECL) of Rs. 3.35 crore in October 2020. The ratings also note the moderate customer concentration risk with the top five customers contributing 32% to the total revenues in FY2020.

The ratings are, however, constrained by AML's low return indicators with the RoCE at 5-6% over the last three years on account of low capacity utilisation and high working capital intensity over the years owing to high inventory levels. ICRA also notes the company's modest scale of operations with revenues of Rs. 70.8 crore in FY2020. In H1FY2021, the revenues declined to Rs. 24.5 crore owing to the impact of the Covid-19 pandemic. However, the revenues are expected to improve in the medium term with the expected ramp up of operations in the Vishakhapatnam unit. The ratings also factor in the exposure of profitability to foreign exchange fluctuations (as exports account for a significant portion of AML's total sales) and volatility in raw material prices.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's belief that AML will continue to benefit from its vast track record in the manufacturing of sodium derivatives.

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 the 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 the major products for the company and together contributed 68% and 62% to the overall sales in FY2020 and Q1 FY2021, respectively.

Moderate customer concentration risk – The customer concentration remained moderate with the top five customers accounting for 32% of total sales in FY2020. The customer base consists of established names with repeat orders from both domestic and export customers.

Healthy capital structure and moderate coverage indicators – The company's capital structure remained comfortable with a gearing of 0.41 times as on September 30, 2020 owing to moderate debt levels with the debt being primarily working capital in nature. The coverage indicators remained moderate with an interest coverage of 2.70 times in FY2020. Although, the interest coverage declined to 1.5 times in H1 FY2021, the same is expected to improve and remain over 2.0 times in FY2021.

Credit challenges

Modest scale of operations – The revenues remained modest at Rs. 70.8 crore in FY2020. In H1FY2021, the revenues declined to Rs. 24.5 crore owing to the impact of the Covid-19 pandemic. However, the revenues are likely to improve in the medium term with the expected ramp up in operations in the Vishakhapatnam unit.

Working capital intensive nature of operations – The working capital intensity is high over the years owing to high inventory levels. The inventory days are high as AML maintains a buffer inventory to meet sudden export orders along with the long processing time, given 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 APIs and fine chemicals. However, the capacity utilisation remained significantly low due to a delay in getting CGMP approvals, which impacted its revenues and profitability.

Liquidity position: Adequate

The liquidity position is adequate with cushion in the form of undrawn limits of Rs. 5.85 crore as on October 31, 2020. The working capital utilisation levels have come down in the last few months with the company availing CECL of Rs. 1.80 crore in July 2020 and GECL of Rs. 3.35 crore in October 2020. Further, the company does not have any major repayment obligations towards CECL and GECL in FY2021.

Rating sensitivities

Positive triggers – ICRA could upgrade AML's ratings if there is a substantial growth in revenues and an improvement in operating margins and liquidity. 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 ratings could arise if there is a decline in revenues and operating margins, resulting in lower cash flows on a sustained basis. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for ratings 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 the 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 (APIDCL). Initially, the company produced sodium metal, but it 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 APIs such as metformin. Its products are sold primarily to pharmaceutical companies for further processing and conversion into bulk drugs.

Key financial indicators

	FY2019	FY2020	H1 FY2021
Operating Income (Rs. crore)	71.6	70.8	24.5
PAT (Rs. crore)	1.7	1.3	-0.8
OPBDIT/ OI (%)	10.37%	9.42%	9.62%
PAT/ OI (%)	2.36%	1.77%	-3.12%
Total Outside Liabilities/ TNW (times)	0.7	0.7	0.6
Total Debt/ OPBDIT (times)	2.5	3.0	4.2
Interest coverage (times)	2.7	2.7	1.5

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

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 26 Nov 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 07 Nov 2019	Date & Rating in FY2019 20 Sep 2018	Date & Rating in FY2018 22 Mar 2018
1	Fund Based – Term Loans	Long Term	5.15	5.15	[ICRA]BB+ (Stable)	-	-	-
2	Fund Based – Cash Credit Limits	Long Term	18.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB(Stable)
3	Non Fund Based Limits	Short Term	9.52	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
4	Unallocated Limits	Long Term/Short Term	9.33	-	[ICRA]BB+(Stable)/ [ICRA]A4 +	[ICRA]BB+(Stable)/ [ICRA]A4 +	[ICRA]BB+(Stable)/ [ICRA]A4 +	[ICRA]BB+(Stable)/ [ICRA]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	Term Loan – 1	Apr-20		Feb-22	1.80	[ICRA]BB+(Stable)
NA	Term Loan - 2	June-20		Oct-24	3.35	[ICRA]BB+(Stable)
NA	Cash Credit				18.00	[ICRA]BB+(Stable)
NA	Non fund based limits				9.52	[ICRA]A4+
NA	Unallocated limits				9.33	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Alkali Metals 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.

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.

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