March 05, 2021 (Revised)

Resil Chemicals Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	44.00	44.00	[ICRA]BBB+ reaffirmed; Outlook revised to positive from Stable
Long-term Fund-based – Term Loan	27.90	27.90	[ICRA]BBB+ reaffirmed; Outlook revised to positive from Stable
Short Term - Fund Based	4.00	4.00	[ICRA]A2; reaffirmed
Short Term - Non-fund Based	5.40	5.40	[ICRA]A2; reaffirmed
Short Term – Interchangeable	(5.00)	(5.00)	[ICRA]A2; reaffirmed
Total	**81.30**	**81.30**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on Resil Chemicals Private Limited (RCPL), which includes its subsidiaries while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The revision in outlook to Positive follows the improved profitability in FY2020 and expected recovery in FY2021 as indicated by 9M FY2021 provisional numbers. This is in line with ICRA's positive outlook for the sector. The diversified portfolio of products across industries lends stability to the revenues in adverse conditions. The long-term relationship with its customers and continuous thrive to develop new products through investments in research and development also lends support to the ratings. The ratings reaffirmation has considered the improvement in the coverage indicators owing to better lower debt amid deferral of capex plans.

The ratings are constrained by the limited bargaining power and high dependence on single segment (textile segment) exposing margins to vulnerability as witnessed in the past. The ratings also considers the fragmented nature of the business with presence of more than 300 players in the industry limiting the pricing flexibility.

Key rating drivers and their description

Credit strengths

Diversified product portfolio - RCPL manufactures a broad range of products like textile finishing agents (TFA), speciality chemicals, process enhancers, organics, enzymes 2 and lubricants under textile segment. In the non-textile segment, it manufactures performance enhancers, anti-foam agents, lubricants, carcare products (under brand name Vista), personal-care products, and other products catering to industries such as leather, rubber and plastics, construction, pharmaceutical, etc. The diverse product portfolio lowers the business risk and the risk of product obsolesce or commoditisation in any specific product line.

Established relationship with a wide customer base - RCPL has a diversified customer portfolio consisting of distributors, textile manufacturers as well as chemical and dye manufacturers, FMCG brands etc. The diversified customer base has resulted in low customer concentration risk as the top-five customers contributed less than 25% to the company's total revenues in FY2020. This reduces the company's exposure to the downturns associated with any specific customer and ensures greater stability of revenues even in case of any client loss. This apart, wide distribution network, established relationship with the suppliers and distributors, pre and post-sales support offered to its customers also contribute to the stability in revenues over the medium term

Substantial market share in the Indian silicon-based TFA market; continuous investment in research and development enhances market position - RCPL is one of the large players in the Indian market for silicone-based TFAs. This apart the company continues to invest about 2% of its operating income regularly in R&D activities for new product development. Strong growth in the hand-sanitiser, personal-care, auto-care and nano-technology products are aiding the company in further diversifying its customer base and increasing its presence in the market.

Comfortable capital structure backed by lower debt –With reduction in the term loans and working capital utilisation the capital structure (TOL/TNW of ~1.2 time) of the entity remains comfortable despite undertaking consistent capex towards portfolio expansion. The improved profitability in FY2020 has improved the coverage metrics with interest cover of 4.1 times (2.6 times in FY2019) and DSCR of 2.3 times (1.6 times in FY2019).

Credit challenges

Vulnerability of margins to raw material prices wherein company has low bargaining power – The company's cost structure comprises of nearly 62% of raw material cost which is primarily the silicone intermediates. The company is able to pass on 40% of any price hike in the raw material cost to its customers which keeps the margins vulnerable as was witnessed in FY2019.

High competition in a fragmented industry limits pricing flexibility and restricts margins - The speciality chemicals market in India is highly fragmented with over 300 large as well as small players competing in the market. The other large players in the segment include global silicone-based chemical manufacturers such as BASF Corporation, Clariant and Huntsman; and domestic manufacturers such as Britacel Silicones Limited and Fineotech Chemicals Ltd. Given the moderate scale of operations with a revenue of Rs. 235.3 crore in FY2020 (on consolidated basis), the ability to influence the market price or pass on the fluctuations in raw-material prices to its customers remains restricted.

High dependence on textile industry exposes the company to volatility in the industry - RCPL derives about 75-80% of its revenues from the textile segment, exposing its revenues to the cyclicality in the textile industry. Demonetisation, implementation of the GST, and the overall weakening of end-user demand has curbed the revenue growth for the company under the textile segment over the last three fiscals. However, revenue growth in the non-textile segment has supported the overall growth of the company.

Liquidity position: Adequate

The company has term loan of Rs.13.8 crore as on March 31, 2020. With a repayment tenor of 6 years and a step-up repayment pattern, the repayment obligation in FY2021 is Rs. 3.3 crore against an estimated cash accrual of Rs. 15.0-16.0 crore. With a working capital utilisation of around 54%, there is adequate buffer for contingencies. With the company having Rs. 8.0 crore of undrawn term loans to meet the capital expenditure requirements, the liquidity position of the company remains adequate. The FFO of the company as on March 31, 2020 is Rs. 14.8 crore compared to Rs. 6.7 crore in FY2019 owing to better operating profits. It has also availed the Covid 19 emergency loan of Rs. 4.4 crore to support the liquidity of the company and is payable within a year. The repayment has started from January 2021 after moratorium of 6 months and repayable in 24 monthly instalments. This apart cash and liquid investment of Rs. 1.4 crore is also available.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company's operating income and profitability improves on a sustained basis, leading to strengthened coverage indicators. Specific credit metrics that could lead to an upgrade includes: 1) ROCE >15%.

Negative factors – The ratings will be downgraded if the profitability is impacted leading to weakening of coverage indicators. Any increase in working capital intensity, or higher than anticipated capex leading to a stretch in the liquidity position could also lead to a downgrade. Specific credit metrics that could lead to a downgrade would be 1) Total Debt/OPBDITA >2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of RCPL. As on March 31, 2020, the company had 1 subsidiaries which are all enlisted in Annexure-2.

About the company

Incorporated by Mr. M.S.Mohan and Mr. M.S.Vijayan in 1991, RCPL commenced operations as an indenting agent for the sale of silicones. In 1994, RCPL integrated backwards to manufacture silicone-based textile finishing chemicals. The company also manufactures organic finishing agents, lubricants, enzymes and softeners for the textile industry. Over the years, RCPL has diversified its product range to include performance chemicals for industries like leather, rubber and plastics, construction, pharmaceutical, paper, agriculture, personal care and cosmetics, and car-care (under the brand name 'Vista'). It also diversified into nano-technology based products for textile, personal care and plastic industries. These products are marketed through its wholly-owned subsidiary N9 World Technologies Private Limited. RCPL has its head-office and R&D centre in Bangalore and has sales offices in Tirupur, New Delhi, Mumbai, Ludhiana, Ahmadabad, and Kolkata. Apart from these, the company has an overseas liaison office in Dhaka, Bangladesh.

Key financial indicators (audited)

RCPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	220.1	235.3
PAT (Rs. crore)	3.4	10.6
OPBDIT/OI (%)	5.9%	9.2%
PAT/OI (%)	1.5%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.2
Total Debt/OPBDIT (times)	4.4	1.8
Interest Coverage (times)	2.7	4.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 5, 2021	Mar 2, 2020	Feb 5, 2019	Mar 8, 2018
1	Cash Credit	Long Term	44.00	-	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A (Stable)**
2	Term Loan	Long Term	27.90	14.9	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB+ (Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A (Stable)**
3	Fund based	Short Term	4.00	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A2+**
4	Non-fund based	Short Term	5.40	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A2+**
5	Interchange able	Short Term	(5.00)	-	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A2+**

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 click here

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-I	FY2015	NA	Aug 2022	10.40	[ICRA]BBB+ (Positive)
NA	Term Loan-II	Feb 2018	NA	Mar 2026	9.50	[ICRA]BBB+ (Positive)
NA	Term Loan-III	Jan 2020	NA	Mar 2026	8.00	[ICRA]BBB+ (Positive)
NA	Cash Credit	-	NA	-	44.00	[ICRA]BBB+ (Positive)
NA	Standby line of Credit	-	NA	-	4.00	[ICRA]A2
NA	Letter of Credit	-	NA	-	4.50	[ICRA]A2
NA	Bank Guarantee	-	NA	-	0.50	[ICRA]A2
NA	Credit Exposure Limits	-	NA	-	(5.00)	[ICRA]A2
NA	PFCF/EPC/FBR/EBD	-	NA	-	**81.30**	[ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	RCPL Ownership	Consolidation Approach
N9 World Technologies Private Limited	100.00%	Full Consolidation
Siri Life Sciences Private Limited	100.00%	Full Consolidation

Source: *RCPL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (RCPL) and its subsidiaries while assigning the ratings.*

Corrigendum

Document dated March 05, 2021 has been corrected with revision as detailed below –

Section related to rationale on page 3 has been revised: In Key Financial Indicators: Total Outside liabilities/Total Net worth has been updated.

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About ICRA Limited:

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