

December 31, 2021

Nitrex Chemicals India Limited: Short Term Rating Upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Export Bill Discounting Facility	20.00	20.00	[ICRA]A2; Upgraded from [ICRA]A3+
Fund-based - Overdraft*	(6.50)	(6.50)	[ICRA]A2; Upgraded from [ICRA]A3+
Fund-based - Short-term Loan*	(10.00)	(10.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Fund-based - Pre-shipment Credit under Export Letter of Credit*	(20.00)	(20.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Fund-based - Pre-shipment Credit under Export Order*	(20.00)	(20.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Non-fund Based - Import Letter of Credit - Secured*	(15.00)	(15.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Non-fund Based - Import Letter of Credit - Unsecured*	(15.00)	(15.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Non-fund Based - Bond and Guarantee*	(7.00)	(7.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Non-fund Based - Financial Guarantee*	(15.00)	(15.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Fund-based - Credit Bill Negotiated*	(15.00)	(15.00)	[ICRA]A2; Upgraded from [ICRA]A3+
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade reflects the significant increase in scale of operations of Nitrex Chemicals India Limited (NCIL) with volume growth of ~23% in FY2021 and further growth expected in FY2022, backed by strong demand and favourable trade protection measures through the imposition of anti-dumping duty (ADD) on the import of non-plasticised industrial-grade nitrocellulose since February 2019. The latter having led to NCIL's better positioning in the domestic market. The rating also draws comfort from the company's leading position in the domestic nitrocellulose market along with comfortable capital structure, owing to its strong net worth with minimal reliance on external working capital funding and, consequently, comfortable coverage metrics. ICRA continues to favourably factor in the extensive experience of NCIL's management in the chemical industry, repeat orders from its domestic as well as international clients and the established relationships with its suppliers.

The rating, however, remains constrained by the highly regulated nitrocellulose industry due to the product's explosive nature and, therefore, any unfavourable change in the regulatory policies will have an adverse bearing on the company's revenues. ICRA also notes that though the ADD imposed on nitrocellulose, originating in or exported from Thailand, Indonesia and Brazil, has improved the demand conditions and the pricing mechanism for local manufacturers (like NCIL), competition from imported nitrocellulose from China continues to exist. The rating continues to factor in the high dependence on creditor funding with an outstanding payable of 132 days as on March 31, 2021. However, Total Outside Liabilities / Total Net Worth (TOL/TNW) remains moderate at 0.9 time as on March 31, 2021 due to low external debt. ICRA also notes the significant advances to third-parties in the form of inter corporate deposits (ICDs) during FY2021. ICRA will be monitoring the quantum of these ICDs extended and timely recovery of the same, going forward.

The [ICRA]A2 rating reflects ICRA's opinion that the company's financial risk profile will continue to remain comfortable, driven by healthy profitability and adequate liquidity.

Key rating drivers and their description

Credit strengths

Extensive experience of directors and promoters in the chemical industry - The company's management has an experience of nearly three decades in the chemical industry, which has been instrumental in forging relationships with its customers and suppliers. This has also helped in diversifying NCIL's market reach in the domestic as well as international markets.

Improvement in scale of operations – In February 2019, the Government of India imposed an ADD on nitrocellulose with nitrogen content in the range of 10.7–12.2%, originating in or exported from Brazil, Indonesia and Thailand. In FY2021, the company benefitted with significant increase in volume by ~23% in FY2021, despite Q1 FY2021 being impacted by the Covid-19 led lockdown. Further, the revenue growth is expected to continue in FY2022 as well. Moreover, the operating profitability has also witnessed improvement to 12.1% in FY2021 over 11.1% in FY2020, partly aided by the ADD imposition.

Comfortable capital structure and robust coverage indicators - The company's capital structure has historically remained healthy as it continues to have limited reliance on bank borrowings and most of its outstanding obligations are in the form of preference shares, which are to be redeemed in FY2022. However, ICRA notes that the preference shares, which were to be converted into equity, will now lead to additional cash outflow of Rs. 21.2 crore. However, the company's adequate liquidity position will support the overall financial profile. The total debt/OPBITDA has remained moderate at 1.2 times with low gearing of 0.3 time as on March 31, 2021. Moreover, the interest coverage has improved to 91.0 times for FY2021 from 80.0 times in FY2020.

Credit challenges

Exposure to regulatory risk owing to highly explosive nature of product - The company's key product, nitrocellulose, is highly explosive in nature. Consequently, there are stringent norms in place and the industry is tightly regulated by the Government. Thus, any unfavourable change in regulatory policies may lead to an adverse effect on the company's revenues as it manufactures only nitrocellulose.

High dependence on creditor funding; however, TOL/TNW remains comfortable - The major raw materials required for nitrocellulose production are wood pulp, raw cotton linter and concentrated nitric acid, which are procured from domestic as well as international markets. The company has a highly concentrated supplier base with its top 10 suppliers accounting for ~90% of its total purchases in FY2021. Further, the working capital requirements are largely funded through creditors with high creditor days of 132 for FY2021. However, due to its strong net worth base and low external debt, along with other liabilities, TOL/TNW remains comfortable at 0.9 time as on March 31, 2021 (0.6 time as on March 31, 2020).

Intense competition impacts revenue growth - The company faces intense competition from nitrocellulose imports from China. Although the imposition of ADD on nitrocellulose originating in or exported from Thailand, Indonesia and Brazil, has reduced competition in the domestic market, the competition from Chinese imports will continue.

Liquidity position: Adequate

NCIL's liquidity position is adequate with healthy fund flow from operations (FFO) over last few years and considerable buffer in the form of undrawn working capital limits. The average utilisation level for the last 15 month period ending September 2021, stood low at 13%. Further, the company has decided to redeem the entire preference shares of Rs. 31.94 crore in FY2022; however, it had surplus cash balance of Rs. 20.8 crore as on March 31, 2021 and additional funds of Rs. 50 crore is expected to be received back in FY2022 from ICDs extended to third parties. Hence, ICRA believes that despite the redemption of preference share capital in FY2022, the anticipated cash flows will be sufficient, and does not foresee any major concern on the company's liquidity position in the near term.

Rating sensitivities

Positive factors – ICRA is likely to upgrade NCIL's rating if the revenue increases substantially through better capacity utilisation, sustainability in margins through overall operational improvement and liquidity position, which improves the overall financial profile along with return indicators on a sustained basis.

Negative factors – Downward pressure on the rating could emerge in case of a significant dip in profitability or due to any adverse regulatory changes affecting the revenue profile impacting the cash flows. Further any sizable advances to related parties/third parties, which weaken the liquidity profile, will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

About the company

NCIL was established on March 16, 2004 by ACTIS, a private equity organisation promoted by CDC PLC., UK, for taking over the nitrocellulose and trading business of ICI India Limited in a management buyout. As on date, the Lodha Group owns 99.7% of the company's stakes through associate group companies, such as Nitrex Mauritius Limited, Sirius Financial Services Private Limited and Rasna Processors Private Limited. NCIL manufactures industrial grade nitrocellulose from wood pulp and bleached cotton linters with nitrogen content in the range of 10.7–12.2%.

Nitrocellulose, a film forming resin, is used in auto refinish paints, wood lacquers, printing inks, leather finishing lacquers, nail varnishes, and in other miscellaneous applications. It has two manufacturing units in Valsad, Gujarat (installed capacity of 9,360 MTPA), and Jhagadia, Gujarat (installed capacity of 7,200 MTPA), with a registered office in New Delhi and a corporate office in Ahmedabad (Gujarat).

Key financial indicators

	FY2020	FY2021	H1FY2022*
Operating Income (Rs. crore)	223.2	247.6	164.9
PAT (Rs. crore)	17.4	21.2	13.8
OPBDIT/OI (%)	11.1%	12.1%	11.4%
RoCE (%)	14.8%	19.4%	22.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.9	0.9
Total Debt/OPBDIT (times)	0.4	1.2	1.0
Interest Coverage (times)	79.8	91.0	83.3
DSCR (times)	62.8	71.8	72.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year). * provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					December 31, 2021	September 7, 2020	April 2, 2019	-	
1	Export bill discounting facility	Short-term	20.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
2	Overdraft*	Short-term	(6.50)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
3	Short-term loan*	Short-term	(10.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
4	Pre-shipment credit under export letter of credit*	Short-term	(20.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
5	Pre-shipment credit under export order*	Short-term	(20.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
6	Import letter of credit - secured*	Short-term	(15.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
7	Import letter of credit - unsecured*	Short-term	(15.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
8	Bond and guarantee*	Short-term	(7.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
9	Financial guarantee*	Short-term	(15.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	
10	Credit bill negotiated*	Short-term	(15.00)	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export bill discounting facility	Very Simple
Over draft*	Simple
Short term loan*	Simple
Pre-shipment credit under export letter of credit*	Very Simple
Pre-shipment credit under export order*	Very Simple
Import letter of credit – secured*	Very Simple
Import letter of credit – unsecured*	Very Simple
Bond and guarantee*	Simple
Financial guarantee*	Simple
Credit bill negotiated*	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export bill discounting facility	NA	NA	NA	20.00	[ICRA]A2
NA	Overdraft*	NA	NA	NA	(6.50)	[ICRA]A2
NA	Short-term loan*	NA	NA	NA	(10.00)	[ICRA]A2
NA	Pre-shipment credit under export letter of credit*	NA	NA	NA	(20.00)	[ICRA]A2
NA	Pre-shipment credit under export order*	NA	NA	NA	(20.00)	[ICRA]A2
NA	Import letter of credit - secured*	NA	NA	NA	(15.00)	[ICRA]A2
NA	Import letter of credit - unsecured*	NA	NA	NA	(15.00)	[ICRA]A2
NA	Bond and guarantee*	NA	NA	NA	(7.00)	[ICRA]A2
NA	Financial guarantee*	NA	NA	NA	(15.00)	[ICRA]A2
NA	Credit bill negotiated*	NA	NA	NA	(15.00)	[ICRA]A2

Source: Nitrex Chemicals India Limited

Annexure-2: List of entities considered for consolidated analysis - Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Mr. Prashant vasisht
+91 0124-4545322
prashant.vasisht@icraindia.com

Mr. Sai Krishna
+91-22-61143435
sai.krishna@icraindia.com

Mr. Ravish Mehta
+91 079 4027 1522
ravish.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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