

May 31, 2022

Resil Chemicals Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	46.50	54.15	[ICRA]A- (Stable); reaffirmed and assigned
Long-term – Term loan	29.89	29.89	[ICRA]A- (Stable); reaffirmed
Short Term - Fund Based	4.00	0.00	-
Short Term - Non-fund Based	5.40	10.40	[ICRA]A2+; reaffirmed and assigned
Short Term – Interchangeable*	(6.00)	(6.00)	[ICRA]A2+; reaffirmed
Long term/short term - Unallocated	1.51	0.00	-
Total	87.30	94.44	

*Instrument details are provided in Annexure-1;

Rationale

The ratings take into consideration the healthy consolidated revenue growth driven by sharp recovery in demand for textile segment, continued growth in the non-textile segment and new customer acquisitions. ICRA also notes that the profit margins have remained healthy in FY2021 and FY2022, despite very sharp increase in raw material prices in FY2022, due to benefit of operating leverage and cost control measures. The capital structure and coverage indicators continue to remain comfortable despite increase in debt levels in FY2022 due to higher inventory requirements following the increase in raw material prices. The rating continues to factor in the diversified product portfolio across industries providing revenue stability in adverse conditions; and long-term relationship with customers and continuous thrive to develop new products through investments in research and development.

However, the rating is constrained by vulnerability of company's profitability to fluctuation in raw material prices with limited bargaining power as witnessed in the past; high industry concentration risk with dependence on single industry i.e., textile industry; and fragmented nature of the business with presence of more than 300 players in the industry limits the pricing flexibility.

The stable outlook on the rating reflects ICRA's opinion that RCPL will continue to benefit from the extensive experience of its promoters, meaningful market share in the Indian silicon based Textile Finishing agents (TFA) market and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Diversified product profile - RCPL has a diversified product profile as it is into the manufacturing of a wide range of products like textile finishing agents (TFA), speciality chemicals, process enhancers, organics, enzymes and lubricants under textile segment. In the non-textile segment, RCPL manufactures performance enhancers, anti-foam agents, lubricants, car care products (under brand name Vista), personal-care products, and other products catering to industries such as leather, rubber and plastics, construction, pharmaceutical, etc. Business risk related to risk of product obsolesce or commoditisation in any specific product is lowered with the presence of a diversified product portfolio.

Comfortable capital structure and coverage indicators The consolidated gearing at 0.4 times as on March 31, 2021 (0.5 times as on March 31, 2020) and total outside liability/tangible networth of 1.2 times as on March 31, 2021. The interest coverage, and TD/OPBDITA stands at 6.4 times and 1.3 times respectively in FY2021. ICRA notes that the debt levels have increased in FY2022 due to higher working capital requirement following sharp increase in raw material prices and higher inventory requirements. ICRA also takes note of company's capex plans for next two years, which will be partly debt funded, however the capital structure and coverage indicators are expected to remain comfortable

Established presence and long-standing customer relationship— RCPL has a diversified customer portfolio consisting of distributors, textile manufacturers, chemical and dye manufacturers, FMCG brands, etc. The customer concentration risk remains low for the company with top 5 customers accounting for ~20-25% of revenue in recent years. The company has a wide distribution network, established relationship with the suppliers and distributors. In addition, the pre-sales and post-sales support offered to its customers provides revenue stability over medium term.

Substantial market share in the Indian silicon-based TFA market; continuous investment in research and development enhances market position - RCPL is a strong player in the Indian silicone-based TFAs market. Moreover, the company continues to invest ~1.5-2% of its operating income in R&D activities for new product development. ICRA also takes note of company's capex plans for adding capacities for new products, which will aid in further diversification of product portfolio.

Credit challenges

Vulnerability of operating profitability to fluctuation in raw material prices – Raw materials account nearly 55-60% of the company's cost structure which is primarily the purchase cost of silicone intermediates. The company is able to partially pass on volatility in raw material prices due to competition and hence margins are susceptible to volatility in raw material prices. In FY2022, there has been sharp increase in raw material prices, however the impact on company's margin has been moderated by benefit of operating leverage and cost control measures.

High competition level limits pricing flexibility - Highly fragmented industry with elevated competition levels limits pricing flexibility and restricts margins. The other large players in the specialty chemicals 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.

High industry concentration risk - RCPL derives about 75-80% of its revenues from the textile segment, exposing its revenues to the cyclical nature in the textile industry.

Liquidity position: Adequate

The company's liquidity position is adequate supported by cash accruals, which has witnessed healthy growth in FY2022 and availability of unutilized working capital limits. ICRA notes that the utilization has increase in recent months due to sharp increase in raw material prices, however sanction of additional facilities in the form of GECL extension loan of Rs. 11.3 crore and ad hoc CC limits have provided support. The company has repayment obligation of ~Rs. 6-6.5 crore per annum in FY23-FY24 and has capex plans of ~Rs. 20-30 crore over two year period, which will be partly debt funded.

Rating sensitivities

Positive Factors – The ratings could be upgraded if the company's operating income and profitability witness substantial improvement on a sustained basis, leading to further strengthening of credit metrics.

Negative Factors - The ratings will be downgraded if the revenue and profitability is adversely impacted on sustained basis 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 >2.3 times on a sustained basis.

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 ratings are based on consolidated financial profile of the company. The details of consolidation is provided 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	FY2020	FY2021
Operating Income (Rs. crore)	235.3	239.6
PAT (Rs. crore)	10.3	16.0
OPBDIT/OI (%)	9.2%	12.7%
PAT/OI (%)	4.4%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	1.8	1.3
Interest Coverage (times)	4.1	6.4

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 (FY2023)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				May 31, 2022	May 10, 2022				
1 Fund Based	Long Term	54.15	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	
2 Term Loan	Long Term	29.89	28.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	
3 Fund based	Short Term	0.00	-	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4 Non-fund based	Short Term	10.40	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	
5 Interchangeable	Short Term	(6.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	
6 Unallocated	Long Term/Short Term	0.00	-	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+ (Positive)/A2	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based	Simple
Term Loan	Simple
Non-fund based	Very Simple
Interchangeable	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 analyzing 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	FY2015	10.25%	Feb 2023	4.74	[ICRA] A- (Stable)
NA	Term Loan-II	Feb 2018	10.25%	Sep 2026	7.79	[ICRA] A- (Stable)
NA	Term Loan-III	Jan 2020	10.25%	Mar 2026	4.85	[ICRA] A- (Stable)
NA	Covid-19 Emergency Credit Line (CECL)	April 2020	6.95%	June 2022	1.22	[ICRA] A- (Stable)
NA	Guaranteed Emergency Line of Credit (GECL)	December 2021	7.40%	December 2026	11.29	[ICRA] A- (Stable)
NA	Cash Credit	NA	8.95%	NA	46.50	[ICRA] A- (Stable)
NA	Adhoc Cash Credit	NA	9.95%	NA	3.65	[ICRA] A- (Stable)
NA	Standby line of Credit	NA	NA	NA	4.00	[ICRA] A- (Stable)
NA	Letter of Credit	NA	NA	NA	9.50	[ICRA]A2+
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A2+
NA	PFCF/EPC/FBR/EBD	NA	NA	NA	(6.00)	[ICRA]A2+
NA	Forward Contracts Limit	NA	NA	NA	0.40	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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: Company

ANALYST CONTACTS

Sabyasachi Majumdar

+91 1244545304

sabyasachi@icraindia.com

Sai Krishna

+91 44 45964300

sai.krishna@icraindia.com

Prashant Vasisht

+91 1244545322

prashant.vasisht@icraindia.com

Tejal Shree

+91 40 40676523

tejal.shree@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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For more information, visit www.icra.in

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



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