

July 29, 2022

Ganga Rasayanie Private Limited: Ratings reaffirmed; outlook retained at Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	40.00	20.00	[ICRA]BBB(Positive); reaffirmed;
Long-term– Fund Based/Non-Fund Based	60.00	93.00	[ICRA]BBB(Positive); reaffirmed;
Long-term/ Short -term – Interchangeable	(60.00)	(85.00)	[ICRA]BBB(Positive)/[ICRA]A3+; reaffirmed;
Long Term / Short term – Unallocated	30.00	17.00	[ICRA]BBB(Positive)/[ICRA]A3+; reaffirmed;
Total	130.00	130.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings continues to factor in the extensive experience of Ganaga Rasayanie Private Limited (GRPL/the company) in the solvent industry and its established relationship with diversified customers across industries. The ratings factors in a growth in the operating income (OI) in FY2022 and Q1 FY2023, supported by increased realisation and healthy sales volume. Further, the commercial operation of the Dahej plant is expected in December 2022 and is likely to support healthy growth in OI from FY2024. ICRA notes the delay in achieving the commercial operation of the Dahej plant. However, the relatively low dependence on external debt compared to the earlier estimates for the said capex and no major project cost overruns are expected to keep the capital structure and coverage indicators at comfortable levels. Nonetheless, any major upward revision in the project cost remains a sensitivity factor.

The ratings are, however, constrained by the risk associated with the stabilisation of the expansion project at Dahej. Further, ICRA notes that GRPL's profitability remains exposed to the fluctuations in the prices of key raw materials, which are crude oil derivatives. The demand-supply dynamics, forex risks and stiff competition from other large oil refineries and imports are the other constraining factors. Further, the sharp increase in raw material prices and increased dependence on domestic players for raw material has increased the working capital requirement and use of liquid funds from Q4 FY2022.

The Positive outlook on the long-term rating reflects GRPL's expected northward trajectory in operating income as the expansion is expected to support sales from FY2024. GRPL will benefit from the extensive experience of its management and its established relationships with customers in the solvent industry.

Key rating drivers and their description

Credit strengths

Experienced management and established position of company in aromatic and aliphatic solvent industry - The promoters of the company have more than three decades of experience in the aromatic and aliphatic solvent industry. Further, the company, incorporated in 1977, has an established relationship with key intermediaries and end customers, which reduces the offtake risk to some extent.

Large and diversified customer profile - GRPL's revenue is derived from a diversified customer base spread across various industry segments such as paints and coatings, oil-feed chemical industry and petrochemicals, mitigating the sector-specific risks to some extent. Further, GRPL's top-10 customers accounted for ~40-42% of the total revenue in FY2021 and FY2022, highlighting the lower level of customer concentration.

Comfortable capital structure and coverage indicators— GRPL's operating income increased by 43% to Rs. 342.2 crore in FY2022 from Rs. 239.1 crore in FY2021 on a low base after it declined from Rs. 286.2 crore in FY2020.

GRPL's financial risk profile remained favourable, with a conservative capital structure gearing of 0.4 times as on March 31, 2021 and comfortable debt coverage indicators, as reflected in TD/OPBDITA of 1.8 times and interest coverage of 6.6 times in FY2021. The capital structure and coverage metrics are expected to remain at healthy levels in FY2022 and FY2023. Further, the company is undergoing sizeable capex for capacity expansion, which will support future revenue growth. ICRA notes that the impact of the capex on the capital structure and coverage indicators will be minimal as majority of the capex would be funded through internal accruals and promoter infusion.

Credit challenges

Risks associated with timely completion and stabilisation of expansion project - GRPL has undertaken an expansion project at Dahej, Gujarat, to install a solvent processing plant with an annual installed capacity of 2,16,000 MTPA and a storage capacity of 20,000 MT. The project is scheduled to be commissioned in December 2022. ICRA notes the delay in achieving the commercial operation of the plant. However, the relatively low dependence on external debt compared to the earlier estimates for the said capex and no major project cost overrun is expected to keep the capital structure and coverage indicators comfortable. Nonetheless, any major upward revision in project costs and stabilisation of the expansion project remain sensitivity factors.

Exposure to raw material price fluctuation and forex risk - The profitability metrics for the company remain exposed to the fluctuation in the prices of the raw material and the associated lag in passing on the same to the customers. However, in past three years the OPM has been range bound between 6.2% -8.4%. GRPL also remains exposed to foreign currency fluctuation risks as around 50% of the company's raw materials are imported; however, simultaneous exports of around 40% of the total sales mitigate the risk to some extent. Further, the company manages its forex risk through its internal risk mitigation policies.

Intense competition from large oil refineries and imports – The petrochemical sector faces intense competition from large refineries in India and from imports. However, the entry barriers in the industry, in terms of quality, chemical usage, pollution control and approval, coupled with its preferred supplier status with end-user industries, provide GRPL with a competitive advantage.

Liquidity position: Adequate

GRPL's liquidity is expected to remain adequate, even after the sizeable near-term capex, as the repayments are limited compared to the expected accruals and cushion is available in working capital limits (average working capital limit utilisation of 59% during 15-month period of Feb 2021 – May 2022). Further, the company has cash and liquid investment of ~Rs. 8.00 crore as on June 30, 2022, though some of it may be used for capex.

Rating sensitivities

Positive factors – ICRA may upgrade GRPL's ratings if the company is able to scale up its operations, while improving the profitability and coverage indicators. Further, successful commissioning of the Dahej project supporting the economies of scale would also be positive trigger.

Negative factors – Negative pressure on GRPL's ratings could arise if a significant decline in revenue and profitability deteriorates the capital structure and the overall liquidity profile of the company. Further, any major cost overrun in commissioning the Dahej project and additional dependence on debt impacting the company's overall liquidity profile could be a negative 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 standalone financials of Ganga Rasayan Private Limited

About the company

Ganga Rasayan Private Limited (GRPL), incorporated in 1977, is involved in the business of downstream refining of heavy para-xylene products to produce aromatic compounds used in paints, coatings, printing inks, varnish, adhesives, oil-feed chemical and agro-chemical industries, including insecticides and pesticides. These products are produced through refining, fractional distillation, purification and blending of heavy aromatic oils. The company also manufactures aliphatic solvents; however, the proportion of the same in the total products sold remains low. The company has two manufacturing facilities, one each at Ankleshwar (Gujarat) and Panamgadu (Andhra Pradesh) with an installed capacity of 70,000 MTPA and 10,000 MTPA, respectively. The company is also undertaking an expansion project to set up a new facility at Dahej, Gujarat, with an installed processing capacity of 216,000 MTPA and a storage capacity of 20,000 MT, which is expected to achieve commercial operations in December 2022.

Key financial indicators (audited)

	FY2020	FY2021	FY2022 (Prov.)
Operating income	286.2	239.1	342.2
PAT	11.7	13.1	13.5
OPBDIT/OI	6.6%	8.4%	6.2%
PAT/OI	4.1%	5.5%	3.9%
Total outside liabilities/Tangible net worth (times)	1.0	0.9	-
Total debt/OPBDIT (times)	1.2	1.8	--
Interest coverage (times)	5.4	6.6	

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on July 16, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				July 29, 2022	Apr 8, 2021	-	Oct 10, 2019
1	Term loans	20.0	16.0	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	-	-
2	Fund-based/non fund-based facilities	93.0	--	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	-	[ICRA]BBB (Stable)
3	Interchangeable and short term	(85.0)	-	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Positive)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+
4	Unallocated limits	17.0	-	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Positive)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-based/non fund-based facilities	Simple
Interchangeable	Simple
Unallocated limits	Not applicable

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Aug 2020	NA	Sep 2026	20.0	[ICRA]BBB(Positive)
NA	Fund-based/non fund-based facilities	NA	NA	NA	93.0	[ICRA]BBB(Positive)
NA	Interchangeable	NA	NA	NA	(85.0)	[ICRA]BBB(Positive)/[ICRA]A3+
NA	Unallocated limits	NA	NA	NA	17.0	[ICRA]BBB(Positive)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Kushal Kumar
+91 40 4067 6521
Kushal.kuamr@icraindia.com

Sankalpa Mohapatra
+91 40 4067 6525
sankalpa.mohapatra@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



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