January 30, 2023

Resil Chemicals Private Limited: Ratings 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 limits	54.15	67.50	[ICRA]A- (Stable) reaffirmed/assigned
Long term – Term loans	29.89	24.48	[ICRA]A- (Stable) reaffirmed
Short term – Non fund-based facilities	10.40	12.75	[ICRA]A2+ reaffirmed/assigned
Short term – Interchangeable limits	(6.00)	(6.00)	[ICRA]A2+ reaffirmed
Total	**94.44**	**104.73**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to factor in the diversified product portfolio of Resil Chemicals Private Limited (RCPL) across industries, providing revenue stability in adverse conditions, and its long-term relationship with customers. RCPL's consolidated revenue has witnessed a sharp growth in the last two years, driven by strong recovery in demand in the textile segment, continued growth in the non-textile segment and new customer acquisitions. The capital structure and coverage indicators continue to be comfortable. The ratings also factor in RCPL's substantial market share in the Indian silicon-based textile finishing agents (TFA) market and the company's continuous efforts to develop new products through investments in research and development.

The ratings, however, are constrained by the vulnerability of the company's profitability to fluctuations in raw material prices with limited bargaining power. The operating margins are expected to decline in FY2023 owing to inventory losses caused by a sharp decline in raw material prices in H1 FY2023. However, the same is expected to improve in FY2024 with the reduction in high-priced inventory. The ratings are also constrained by high industry concentration risk with dependence on a single industry i.e., the textile industry, and the fragmented nature of the business with the presence of more than 300 players that 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, a meaningful market share in the Indian silicon-based 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 manufactures a wide range of products like textile finishing agents (TFA), speciality chemicals, process enhancers, organics, enzymes and lubricants under the 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. The diversified product portfolio lowers the business risk related to a product getting obsolete or the commoditisation of any specific product.

Comfortable capital structure and coverage indicators - As on March 31, 2022, the consolidated gearing was 0.7 times (0.4 times as on March 31, 2021) and the total outside liability/tangible net worth was 1.2 times. The interest coverage and

TD/OPBDITA were 6.4 times and 1.8 times, respectively, in FY2022. ICRA notes that the debt levels had increased in FY2022 due to higher working capital requirement following the sharp increase in raw material prices and higher inventory requirements. The coverage indicators are expected to moderate in FY2023 with the expected reduction in margins owing to inventory losses. However, the margins are expected to improve in FY2024, which will also improve the coverage indicators. ICRA also takes note of the company's capex plans for the 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 ~18-25% of the revenue in recent years. The company has a wide distribution network and established relationship with the suppliers and distributors. In addition, the pre-sales and post-sales support offered to its customers provides revenue stability over the medium term.

Substantial market share in domestic 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 the company's capex plans for adding capacities for new products, which will aid in further diversification of the product portfolio.

Credit challenges

Vulnerability of operating profitability to fluctuation in raw material prices - Raw materials account for 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 the volatility in raw material prices due to competition and hence the margins are susceptible to the fluctuation in raw material prices. The operating margins declined to ~5% in H1 FY2023 owing to inventory losses caused by a sharp decline in raw material prices. The operating margins are expected to decline in FY2023; however, they are expected to improve in FY2024 with the reduction in high-priced inventory. The margins remain susceptible to the volatility in raw material prices.

High competition limits pricing flexibility – A highly fragmented industry with elevated competition levels limits the 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 75-80% of its revenues from the textile segment, exposing its revenues to the cyclicality 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 the availability of unutilised working capital limits. ICRA notes that the utilisation has remained at an average of ~80% in the last 12 months. The company has a repayment obligation of Rs. 6-6.5 crore per annum in FY2023- FY2024 and has capex plans of ~Rs. 20-30 crore per year over the next two years (FY2024 and FY2025), 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, strengthening the credit metrics further.

Negative factors – The ratings will be downgraded if the revenue and profitability are adversely impacted on a sustained basis, weakening the coverage indicators. Any increase in the working capital intensity, or a higher-than-anticipated capex leading to a stretch in the liquidity position could also lead to a downgrade. A specific credit metric for a downgrade would be total debt/OPBDITA of more than 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 the consolidated financial profile of the company. The details of consolidation is provided in Annexure 2.

About the company

RCPL, incorporated by Mr. M.S.Mohan and Mr. M.S.Vijayan in 1991, 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 the 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 Bengaluru 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	FY2021	FY2022
Operating income	239.6	330.9
PAT	16.5	20.6
OPBDIT/OI	12.7%	12.4%
PAT/OI	6.9%	6.2%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	1.3	1.8
Interest coverage (times)	7.2	6.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

RCPL Standalone	FY2021	FY2022	H1 FY2023*
Operating income	224.64	321.21	187.64
PAT	13.42	19.80	2.85
OPBDIT/OI	12.21%	12.34%	5.00%
PAT/OI	5.97%	6.16%	1.52%
Total outside liabilities/Tangible net worth (times)	1.13	1.16	1.34
Total debt/OPBDIT (times)	1.48	1.85	4.00
Interest coverage (times)	6.54	6.35	2.42

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional financials*

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 as on Sep 30, 2022 (Rs. crore)	Date & rating in			Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 30, 2023	May 31, 2022	May 10, 2022	Apr 16, 2021	Mar 5, 2021	Mar 2, 2020
1	Fund-based limits	Long Term	67.50	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Term loan	Long Term	24.48	24.21	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Fund-based limits	Short Term	0.00	-	-	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Non fund-based facilities	Short Term	12.75	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
5	Interchangeable limits	Short Term	(6.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
6	Unallocated limits	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 limits	Simple
Term loans	Simple
Non fund-based facilities	Very Simple
Interchangeable limits	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 are available on ICRA's website: Click Here

Annexure I: 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	9.90%	Feb 2023	2.04	[ICRA] A- (Stable)
NA	Term Loan-II	Feb 2018	9.90%	Sep 2026	7.04	[ICRA] A- (Stable)
NA	Term Loan-III	Jan 2020	9.90%	Mar 2026	4.11	[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	61.50	[ICRA] A- (Stable)
NA	Standby line of Credit	NA	NA	NA	6.00	[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/FBD/EBR	NA	NA	NA	(6.00)	[ICRA]A2+
NA	Forward Contracts Limit	NA	NA	NA	2.75	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
N9 World Technologies Private Limited	100.00%	Full Consolidation
Klenza Lifesciences Private Limited	100.00%	Full Consolidation

Source: RCPL annual report FY2022

ANALYST CONTACTS

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

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

B Kushal Kumar
+91 40 4547 4829
kushal.kumar@icraindia.com

Arvind Srinivasan
+91 44 4267 4316
arvind.srinivasan@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

About ICRA Limited:

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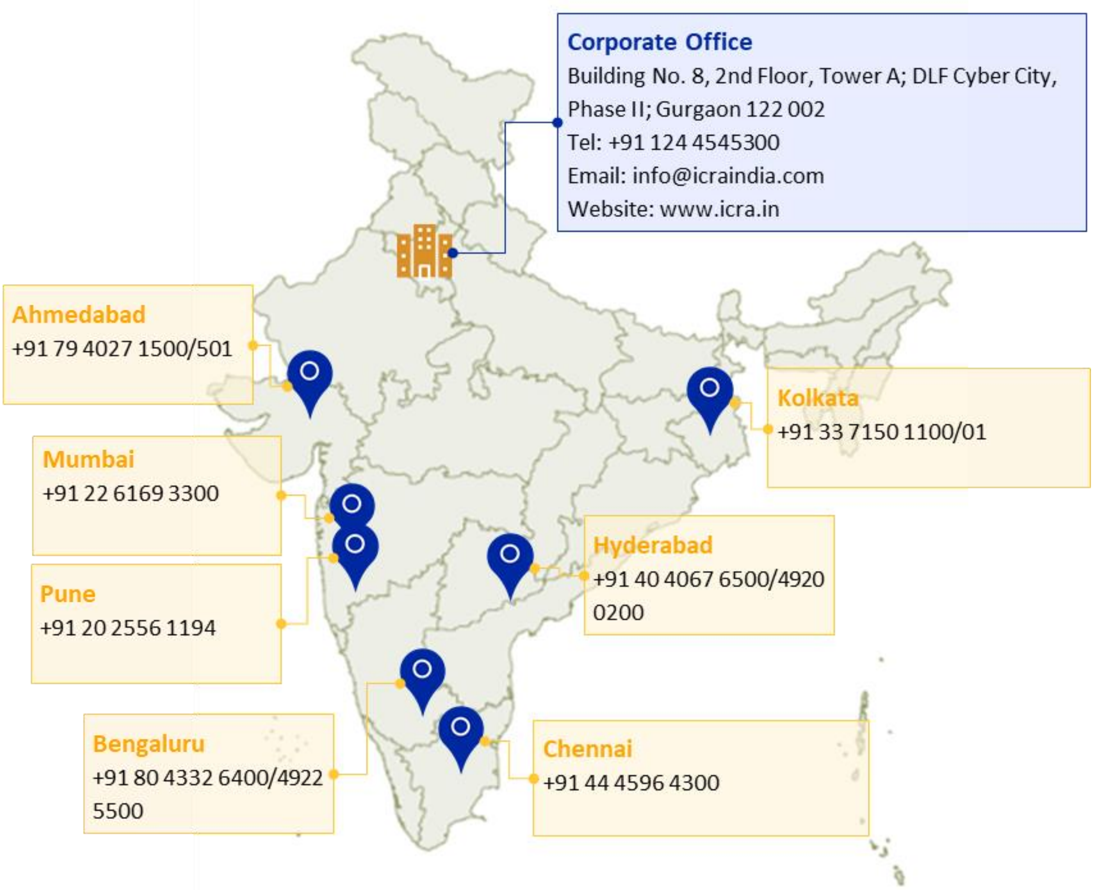
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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