September 01, 2023

Ganesh Polychem Limited: Ratings downgraded to [ICRA]A+(Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund-based	45.00	45.00	[ICRA]A+ (Stable); downgraded from [ICRA]AA- (Stable)
Short-term- Non fund-based	6.60	6.60	[ICRA]A1; downgraded from [ICRA]A1+
Fund-based interchangeable limits^	(25.00)	(25.00)	[ICRA]A1; downgraded from [ICRA]A1+
Total	**51.60**	**51.60**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the ratings factors in the change in the parentage of Ganesh Polychem Limited (GPL) from Aarti Industries Limited (AIL) to Aarti Pharmalabs Limited (APL), which has a relatively weak credit profile vis-à-vis AIL. The NCLT approved the demerger of Aarti Industries Limited into two companies — Aarti Industries Limited and Aarti Pharmalabs Limited. As part of this business restructuring, GPL's shareholding has been moved to APL. APL will be willing to continue to extend financial support to GPL, if the need arises.

GPL's own credit profile, however, continues to be strong, marked by consistently healthy profit margins, low debt levels and robust debt protection metrics, reflected in debt/OPBDITA of 0.25 times and interest coverage of more than 55.4 times for FY2023. The credit metrics are expected to remain strong, going forward, despite the expected moderation in the profitability and the ongoing capex for expanding the manufacturing capacities.

GPL reported a muted revenue growth of 6% in FY2023 on the back of lower volumes as the company took a shutdown towards the end of the fiscal for critical maintenance activity, which impacted its capacity utilisation in Q4 FY2023. While the volume growth is expected to moderate in FY2024, the cash flow from operations is expected to remain healthy. ICRA also takes into consideration GPL's leading position as a manufacturer of di-chloro diphenyl dullfone (DCDPS), which is a complex polymer intermediate, and its long-term contract with the BASF Group for the same. ICRA continues to consider the lengthy approval process for supplying organic intermediates to end-user industries like aerospace and hybrid cars, which acts as an entry barrier for new competitors, benefiting an established player like GPL.

The ratings, however, are constrained by GPL's moderate scale of operations, the moderately high working capital intensity of operations, high customer concentration risks with large reliance on a single client and limited product diversification with its top four products driving 75% of its revenues. Further, being present in the chemical industry and dealing with hazardous products, GPL remains vulnerable to increased regulatory scrutiny from pollution control norms. Moreover, the volumes remain vulnerable to the ongoing economic slowdown in the global economy as majority of the revenue is derived from exports.

The Stable outlook on the long-term rating reflects ICRA's opinion that GPL will continue to maintain a steady credit profile by generating healthy cash flows, benefiting from the respective expertise of its joint venture partners, established relationship with the BASF Group and a strong product profile.

Key rating drivers and their description

Credit strengths

Benefits of parentage of Aarti Pharmalabs Limited – ICRA notes that with the demerger of Aarti Industries Limited into two companies — Aarti Industries Limited and Aarti Pharmalabs Limited, the investment in GPL has moved to APL. Further, ICRA notes that APL will be willing to extend financial support to GPL, if the need arises. Moreover, APL's credit profile remains healthy, driven by a consistent growth in operating income, healthy operating margins and strong coverage metrics.

Healthy profit margins backed by higher share of revenue from complex polymer intermediates – GPL's operating profit margins have remained healthy due to the high value-accretive product profile of complex polymer intermediates and a strong market position. The company's operating profit margin declined in FY2023 due to incremental spend on maintenance and lower volumes. The OPM is also expected to be impacted to some extent by the ongoing capex. However, for its major customer, it has a pricing formula which protects it from raw material price fluctuation to some extent and helps in maintaining the contribution margins.

Conservative capital structure and robust coverage indicators – The company's capital structure has remained conservative due to its limited reliance on external borrowings coupled with a strong tangible net worth base. The total debt reduced to Rs. 15.25 crore as on March 31, 2023 from Rs. 28.00 crore as on March 31, 2022 with the decrease in working capital borrowings. With the reduction in borrowings, the gearing improved to 0.06 times as on March 31, 2023 from 0.12 times as on March 31, 2022 and is expected to remain healthy. The interest coverage was strong at 55.40 times in FY2023 due to healthy profits and low interest and finance expenses.

Strong entry barriers and GPL's established presence in the market – Complex polymers find application in engineering plastic, which is further used in the aerospace and automobile industries. As any change in the formulation can adversely impact the performance of the product, the approval process to supply these polymers is a lengthy one, acting as an entry barrier for other manufacturers. GPL's established market presence in the global polymer intermediate business acts as an entry barrier for other players.

Credit Challenges

Moderately high working capital-intensive operations – The working capital intensity, reflected in the net working capital intensity/operating income (NWC/OI), has remained moderately high for the company due to its elevated debtor and inventory levels. However, the working capital intensity improved in FY2023 to 15% from 22% in FY2022. The debtor days reduced to 41 days in FY2023 from 59 days in FY2022 and the inventory days have reduced to 28 days in FY2023 from 40 days in FY2022, as the plant witnessed some shutdowns in the last quarter.

High customer concentration risk and limited product profile – GPL derives 35-40% of its revenues from the BASF Group, leading to high customer concentration risk. However, its long association with the Group as one of its preferred suppliers over the years mitigates this risk to an extent.

Concentrated product portfolio – GPL's product profile has remained concentrated with its top four products accounting for over ~90% of its revenues. Although the share of its top four products has reduced over the last two years due to the trading of other products and sale of steam from the co-generation plant, these products remain GPL's key revenue drivers. The company's strong presence in the domestic and global markets provides comfort.

Liquidity position: Adequate

The liquidity position of the company is adequate with healthy cash accruals and no significant term loan repayments over the medium term. GPL had no term loan on its books as on June 30, 2023. The company's reliance on working capital borrowings has remained limited in the last 12 months. While the company is undertaking a capex of Rs. 60-70 crore in the current fiscal, to be funded through internal accruals and available cash balances, the liquidity will continue to be comfortable amid healthy cash flow generation.

Rating sensitivities

Positive factors – A material improvement in revenues and a sustained improvement in working capital intensity will support an upgrade. The ratings may also be upgraded if APL's healthy credit profile sustains/improves.

Negative factors – Pressure on GPL's ratings could arise if there is a substantial decline in revenues and operating margins. Moreover, any deterioration in the credit profile of APL, or weakening of linkages and financial support from APL, can exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent Company – Aarti Pharmalabs Limited. The rating assigned to GPL factors in the willingness of APL to extend financial support to the company, as demonstrated in the past. ICRA believes that APL will continue to extend financial support to GPL, as and when the need arises
Consolidation/Standalone	Standalone

About the company

GPL is a joint venture between AIL and the Bandodkar (BanChem) Group. AIL provides financial and operational support, while the Bandodkar Group provides technical expertise in developing complex polymer intermediates. In March 2016, AIL increased its ownership to 50.24% from 50%, thus gaining a controlling stake. In March 2021, AIL reduced its stake to 50% after the conversion of compulsory convertible debentures (CCDs) issued to the Bandodkar Group into equity and GPL ceased to be a subsidiary of AIL. The NCLT approved the demerger of Aarti Industries into two companies — Aarti Industries and Aarti Pharmalabs Limited. Some portions of the investments have also been transferred to Aarti Pharma and the investment in Ganesh Polychem Limited will be a part of such transfer. GPL has two plants, one at Vapi (Gujarat) and the other at Dombivali (Maharashtra). The company is one of India's largest manufacturers of DCDP, which is a complex polymer intermediate used in the aerospace industry, aircraft and hybrid car segments. GPL also produces di-amino di-phenyl sulfone (DADPS), di-methyl aniline (DMA) and di-methyl sulphate (DMS).

Key financial indicators (audited)

	FY2021	FY2022	FY2023
Operating income	244.27	371.93	392.65
PAT	23.50	41.02	37.95
OPBDIT/OI	19.39%	19.54%	15.75%
PAT/OI	9.62%	11.03%	9.66%
Total outside liabilities/Tangible net worth (times)	0.29	0.34	0.20
Total debt/OPBDIT (times)	0.20	0.39	0.25
Interest coverage (times)	30.69	60.73	55.40

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 01, 2023	Sept 13, 2022	Jul 26, 2021	Jul 1, 2020
1	**Cash credit**	Long-Term	45.00	-	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**
2	**Term loan**	Long-Term	0.00	-	-	-	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Stable)**
3	**Letter of credit**	Short-term	3.00	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**
4	**Bank guarantee**	Short-term	3.00	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**
5	**Packing credit/ post-shipment credit***	Short-term	(25.00)	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**
6	**Forward contracts**	Short-term	0.60	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**

**Sublimit of cash credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Letter of credit	Very Simple
Bank guarantee	Very Simple
Packing credit/ post-shipment credit	Simple
Forward contracts	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	-	-	-	45.00	[ICRA]A+ (Stable)
NA	**Letter of credit**	-	-	-	3.00	[ICRA]A1
NA	**Bank guarantee**	-	-	-	3.00	[ICRA]A1
NA	**Packing credit/ post-shipment credit ***	-	-	-	(25.00)	[ICRA]A1
NA	**Forward contract**	-	-	-	0.60	[ICRA]A1

*Source: Company, *Sublimit of cash credit*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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