October 20, 2023

Acme Chem Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term unallocated	10.0	10.00	[ICRA]A/[ICRA]A1 reaffirmed; outlook revised to Stable from Positive
Total	**10.0**	**10.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating to Stable from Positive considers moderation in Acme Chem Limited's (ACL) consolidated operating margins and higher-than-anticipated debt availed towards capex. While the company registered healthy consolidated revenue growth in FY2023, the company was only partly able to pass on rise in input costs, which impacted its operating margins. Consequently, leverage and coverage metrics are expected to be moderate in the near to medium term over earlier expectations.

Nevertheless, the financial profile is likely to remain comfortable with healthy profits at an absolute level, sizeable cash and bank balances and liquid investments rendering financial flexibility to the Group. Further, over the near term, launch of new products and improvement in the capacity utilisation are likely to support the revenue growth. The reaffirmation of the ratings continues to factor in the established presence of FL in the rubber chemicals industry. The ratings draw comfort from the strategic location of Unit 1 near Unit 2 in the chemical hub of Gujarat, at Panoli, and the Group's established relationships with its customers comprising reputed manufacturers of automobile tyres, ensuring repeat business over the years.

The ratings are, however, constrained as Finorchem's Unit 2 is yet to achieve optimal capacity utilisation, though it is witnessing a gradual ramp up in volumes. Going forward, given Unit 1 has achieved optimal capacity utilisation, further revenue growth will depend on Unit 2 achieving optimal capacity utilisation. Hence, any significant delay in achieving optimal capacity utilisation of the Unit 2 plant may impact the Group's overall revenue growth and profitability. Further, rubber chemical manufacturing will remain exposed to high sectoral concentration risks due to significant dependence on the tyre manufacturing industry. Besides, the Group is likely to remain exposed to foreign exchange rate fluctuation risk, as a major portion of the raw materials required to manufacture rubber chemicals is imported. Nevertheless, the forex risk is mitigated to an extent by a partial natural hedge and the quarterly revision of sales prices offered to its customers. ACL has large investments in land, mainly through subsidiaries and JVs, which have not given commensurate return till date, keeping the overall return on capital employed under check. However, development agreement entered by ACL and some of its subsidiaries with a reputed real-estate developer to monetise a part of the investment in land is likely to support its cash flows, going forward, though the timeliness of the same cannot be ascertained.

Key rating drivers and their description

Credit strengths

Established presence in rubber chemicals industry – The Group is an established player in the specialty rubber chemicals industry. Finorchem has two operating chemical manufacturing units - Unit 1 (the rubber chemical manufacturing unit of ACL transferred to Finorchem post scheme of arrangement w.e.f. April 1, 2019) and Unit 2 (it was acquired in FY2019). Unit 1 has a healthy share in the domestic market for its product range. Nevertheless, the Unit 1's product portfolio remains limited compared to its larger peers. Also, Unit 2 had an established track record in the specialty chemical industry with a reputed brand name, primarily catering to the tyre industry. Unit 2 has a larger product range and a higher capacity than Unit 1. Besides, the clientele, mainly belonging to the tyre industry, is similar for both the units.

Strategic location of plants – Finorchem's units are located at the chemical hub in Gujarat and have access to large cities such as Surat and Bharuch. Moreover, both units are in proximity to each other, which is likely to provide some operational advantages. Finorchem's other two plants of relatively smaller capacities are in Kerala and are non-operational at present.

Reputed customer base with established relationships reduces offtake risks – Finorchem's acceptable product quality has led to repeat businesses from its customers over the years. Finorchem has an established brand and its products have been approved by some of the prominent players in the tyre manufacturing industry, mitigating the offtake risks to an extent.

Healthy financial risk profile – While the Group has registered healthy revenue growth in FY2023, the Group was only partly able to pass on rise in input costs, which impacted its operating margins. Consequently, leverage and coverage metrics are expected to be moderate in the near to medium term over earlier expectations. Nevertheless, the financial profile is likely to remain comfortable with healthy profits at an absolute level, sizeable cash and bank balances and liquid investments rendering financial flexibility to the Group. Further, over the near term, launch of new products and improvement in the capacity utilisation likely to support the revenue growth.

Credit challenges

Gradual ramp-up in Unit 2's volumes, however, yet to achieve optimal capacity utilisation – Finorchem's Unit 2 began commercial production in December 2020. Though the unit is witnessing a gradual ramp-up in volumes, it is yet to achieve optimal capacity utilisation. The capacity utilisation was less than 50% in FY2022 and FY2023. Going forward, notwithstanding the promoter's experience in the similar business, any significant delay in achieving optimal capacity utilisation at the Unit 2 plant may impact the Group's overall revenue growth and profitability.

High sectoral concentration risk – The clientele of the Group comprises major tyre manufacturing companies, exposing it to high sectoral concentration risks. Any slowdown in the domestic tyre industry will lead to a decline in the operating income.

Exposure to foreign exchange rate fluctuation risk – A major portion of the raw materials (~74% in FY2023) required to make rubber chemicals is imported and the company is likely to remain exposed to the foreign exchange rate fluctuation risk. However, a partial natural hedge arising from some of the exports and the quarterly price-revision arrangement with customers mitigate the company's exposure to forex risks, to some extent.

Large investments in land, primarily through subsidiaries, yet to generate returns – ACL has large investments in land, a major portion of which is through its subsidiaries. Lack of return from the investments has affected the overall business returns so far. However, the development agreement entered by ACL and some of its subsidiaries with a reputed real-estate developer to monetise a part of its land assets is likely to support the Group's cash flows going forward, though the timeliness remains uncertain.

Liquidity position: Adequate

The consolidated liquidity position is **adequate** with cushion in working capital limits. The consolidated average working capital utilisation was ~48% of the sanctioned working capital limits between August 2022 and August 2023, which provides cushion to the liquidity. The term loan repayment obligations are ~Rs. 29 crore in FY2024 and Rs. 39 crore in FY2025. The estimated cash flow from operations would be adequate to service the repayment obligations and meet the capex commitment. Further, healthy cash and liquid investments are likely to support the consolidated liquidity position.

Rating sensitivities

Positive factors – Significant improvement in the consolidated revenue and profitability on a sustained basis, may lead to a rating upgrade. A specific credit metric for an upgrade include consolidated net debt to OPBDITA lower than 1.5 times on a sustained basis.

Negative factors – The ratings could be downgraded if there is any significant deterioration in consolidated revenues and profits, affecting the overall financial profile. Further, any large debt-funded capex/acquisition resulting in increased leverage and pressure on its coverage metrics on a sustained basis, or a stretch in the working capital intensity impacting the liquidity profile of consolidate entity may also put pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Chemical industry Rating Methodology for Holding Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of Acme Chem Limited

Note (for analyst reference only):

About the company

ACL, incorporated in 1992, is promoted by Mr. Narain Holani. Prior to the scheme of arrangement, ACL manufactured a few select grades of specialty chemicals, which are used as critical inputs for rubber manufacturing in small proportion. It manufactured rubber chemicals like peptiser, anti-oxidants, pre-vulcanising inhibitor, accelerator, etc., which are used in different stages of rubber processing. The company primarily catered to automobile tyre manufacturers. The chemical manufacturing plant is at Ankleshwar in the Bharuch district of Gujarat and has a total installed capacity of 10,800 metric tonnes per annum (MTPA).

Finorchem Limited (erstwhile Merchem Limited), incorporated in 1994, was involved in the manufacturing of specialty rubber chemicals and a few other chemicals. However, the company discontinued its operations due to financial stress. In FY2019, Finorchem was acquired by ACL through the corporate insolvency resolution process (under the provisions of the Insolvency and Bankruptcy Code, 2016). Finorchem has plants at Eloor and Edayar in Kerala and Panoli in Gujarat with a total capacity of 27,520 MTPA. Finorchem's largest plant at Panoli with an installed capacity of 18,400 MTPA was revamped and commenced operations in December 2020. At present, the plant in Kerala are not operational.

Further, after the approval of the scheme of arrangement by the National Company Law Tribunal (NCLT), the rubber chemical manufacturing division of ACL was transferred to Finorchem. Further, ACL's subsidiaries - Lesha Commercial Private limited and Adirish Properties Private Limited - have been amalgamated with ACL to eliminate cross-holding. The parent - ACL - along with the subsidiaries (other than Finorchem) and JVs are engaged in investing activities and dealing in the real estate business.

Key financial indicators

Consolidated	FY2022	FY2023*
Operating income	420.3	570.0
PAT	66.1	55.0
OPBDIT/OI	17.4%	11.9%
PAT/OI	15.7%	9.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	2.2	2.1
Interest coverage (times)	5.6	5.3

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

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations;*

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					October 20, 2023	October 12, 2022	Sep 28, 2021	Dec 8, 2020	Jun 25 2020
1	**Unallocated**	Long-term / Short Term	10.0	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	-	-	-
2	**Term Loan**	Long-term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
3	**Fund Based/ CC**	Long-term	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Negative)
4	**Fund based/non fund based**	Long-term / Short-term	-	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	10.00	[ICRA]A (Stable)/ [ICRA]A1

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	ACL Ownership	Consolidation Approach
Acme Chem Limited	100.00% (Rated entity)	Full consolidation
Adirish Heights Private Limited	99.83%	Full consolidation
Emerald Heights Private Limited	99.08%	Full consolidation
Rational Heights Private Limited	82.53%	Full consolidation
Hiramoti Nirman Private Limited	67.56%	Full consolidation
Finorchem Limited	100.00%	Full consolidation
Satyam Enclave Private Limited	47.88%	Equity Method
Adirish Nirman LLP	99.0%	Full consolidation
Adirish Realty LLP	99.0%	Full consolidation
Hiramoti Properties LLP	99.0%	Full consolidation
Keytouch Properties LLP	99.0%	Full consolidation
Lesha Realty LLP	99.0%	Full consolidation
Nirmachan Realty LLP	99.0%	Full consolidation
Nirmaalya Estate LLP	99.0%	Full consolidation
Buddhividhata Realty LLP	99.0%	Full consolidation
Chaturanan Realty LLP	99.0%	Full consolidation
Gajakama Realty LLP	99.0%	Full consolidation
Lambkam Realty LLP	99.0%	Full consolidation
Paridhan Realty LLP	99.0%	Full consolidation
Raktakaraya Realty LLP	99.0%	Full consolidation
Sukhanidhi Realty LLP	99.0%	Full consolidation
Devyai Realty LLP	99.0%	Full consolidation
Himganga Realty LLP	99.0%	Full consolidation
Jagadisha Realty LLP	99.0%	Full consolidation
Mahadriga Realty LLP	99.0%	Full consolidation

Source: ACL annual report FY2022

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About ICRA Limited:

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