December 22, 2023

Elkay Chemicals Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Overdraft facilities	12.50	12.50	[ICRA]BBB+ (Stable); reaffirmed
Long term – Fund based – EPC/PCFC*	(5.00)	(5.00)	[ICRA]BBB+ (Stable); reaffirmed
Short term - Non-fund based – LC	6.50	6.50	[ICRA]A2; reaffirmed
Short term - Non-fund based – LC*	(5.00)	(5.00)	[ICRA]A2; reaffirmed
Short term -Non-fund based/BG*	(0.25)	(0.25)	[ICRA]A2; reaffirmed
Total	**19.00**	**19.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings continues to take into consideration the professionally qualified and experienced promoters of Elkay Chemicals Private Limited (ECPL or the company) with a track record of over three decades in manufacturing silicone-based products. The ratings also take into account ECPL's diversified product portfolio catering to various industries, which provides cushion against industry-specific risks. Moreover, the customer base remains diversified with established relationships with key customers ensuring revenue visibility for the company.

The company reported an annual volume growth of ~17% in FY2023. However, the realisations were impacted by the global oversupply situation and tepid demand conditions in international markets. There was a significant moderation in profit margins as contributions contracted amid a mismatch in the demand-supply scenario and inventory losses in FY2023 due to the decline in prices, and the same are likely to continue in the current fiscal as well. ECPL continued to exhibit comfortable capital structure and strong coverage indicators in FY2023, reflected in a gearing of 0.12 times and interest coverage of 12.14 times for the fiscal. These indicators are likely to witness some moderation owing to the support that is expected to flow from this entity for a capex in the proposed US-based facility, which is likely to be set under a sister concern.

The ratings, however, continue to be constrained by ECPL's moderate scale of operations and the limited bargaining power with its key suppliers as most of them are reputed players with a monopoly in the global silicone market. At present, ECPL derives a sizeable portion of its sales from exports with some dependence on Europe. However, the domestic market is doing well and the new customers in Middle East, South Africa, Kazakhstan, etc. will contribute to ECPL's growth.

ICRA notes that the profitability remains susceptible to the volatility in raw material prices, while its realisations are linked to the global demand-supply scenario. Further, ECPL's profitability remains inherently exposed to currency risks because of its sizeable exports, although the significant amount of imports provides a natural hedge to an extent. Moreover, being in the chemical industry, the company remains exposed to environmental risks.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that ECPL will continue to maintain its business position, given its established relationships with key clients from diverse industries to generate a comfortable level of cash flow and maintain a healthy credit profile.

Key rating drivers and their description

Credit strengths

Qualified and experienced promoters with established track record in manufacturing silicone-based products – The key promoters of the company, Dr. R.D. Kulkarni and Mr. A.K. Lokapur, are professionally qualified technocrats, with more than three decades of experience in silicone-based product manufacturing. ECPL commenced operations in 1986, which helped the company to acquire and retain customers.

Diversified product portfolio catering to different industries; established and diversified customer base – ECPL manufactures a broad array of products that are customised to meet the diverse requirements of its customers across industries such as agriculture, construction, petrochemicals, personal care, textile, pharmaceuticals and rubber. The diverse product portfolio lowers the business risk and the risk of product obsolescence or commoditisation in any specific product line. The wide range of products caters to multiple requirements of any customer, strengthening the customer-wise market share for the company. The company derived ~39% of the revenues in FY2023 from new customers acquired in the last two years. The company derived 50-55% of its revenues from exports, which has increased to 60-65% in the current fiscal. Going forward, while Europe is likely to face demand-side pressures, the company has been diversifying its presence across Middle East, South Africa, Kazakhstan, etc. The geographical diversification reduces its vulnerability to the variability in demand in a single region, or demand disruptions caused by force majeure events or adverse regulatory actions in a single geography.

Healthy financial risk profile - There was a significant decrease in profit margins in FY2023 as contributions contracted amid a mismatch in the demand-supply scenario and dumping of material by China. At a standalone level, the company reported OPM of 6.45% in FY2023 compared with 25.24% in FY2022. Besides the fact that FY2022 was an exceptional fiscal, the realisations decreased in FY2023 as the company incurred inventory losses. However, with minimal long-term debt, Elkay continues to show comfortable capital structure and debt protection metrics at both the standalone and consolidated levels. The company's working capital intensity has remained low, reflected in a net working capital intensity/operating income of less than 20% in the last five years. The interest coverage stood at 12.14 times and the total debt/operating profit was 0.55 times in FY2023.

Growing demand for silicone in various end-user industries to drive industry growth - The global silicone market is expected to register a compound annual growth rate (CAGR) of 6-7% till 2030. The growing demand for silicone in various end-user industries, such as personal care, consumer goods, industrial processes and construction, is expected to drive industry growth over the forecast period. Further, in the domestic market, the growth prospects remain healthy with elevated demand from refineries, consumer goods and personal care.

Credit challenges

Moderate scale of operations - ECPL continues to operate on a moderate scale of operations with a consolidated revenue base of ~Rs. 299.98 crore in FY2023. The company reported a ~17% annual volume growth in FY2023. However, the prices started softening due to Chinese dumping and the sales realisation declined, thus reducing its operating income. Elkay (standalone) reported revenues of Rs. 262.78 crore in FY2023 and Rs. ~107.88 crore in H1 FY2024. ICRA notes that there is a tremendous slowdown in Europe and the US is also facing a similar situation. However, the domestic market is doing well and the new customers in Middle East, South Africa, Kazakhstan, etc. will contribute to Elkay's growth.

Susceptibility of profitability to volatility in raw material prices – Raw materials account for about 58% of the company's operating costs. Silicone monomer is the major raw material used by the company and has exhibited high volatility in the recent past. The profitability of the company remains vulnerable to the fluctuations in raw material prices, given its limited ability to fully pass on the price variation to its end customers.

Limited bargaining power with large, reputed suppliers with monopoly in the silicone market – The major suppliers of the company are multinational players on whom ECPL has moderate dependence for raw material procurement. ECPL has limited bargaining power with these major silicone players. However, the company's well-established relationships with several reputed suppliers of silicone monomers mitigate the risk to an extent.

Liquidity position: Adequate

At a consolidated level, the company had an external term loan of Rs. 3.71 crore on its books as on March 31, 2023. There is adequate buffer for contingencies with a working capital utilisation of 70-75%. The company had cash and liquid investments of ~Rs. 25.97 crore as on March 31, 2023 (standalone), although the same is likely to be used to meet the capex requirements in the proposed US entity. The company is planning to set up a manufacturing and storage facility in a subsidiary in USA by FY2024 and Elkay will invest $8-9 million which will be funded using internal accruals and unsecured loan from promoters.

Rating sensitivities

Positive factors – The ratings could be upgraded if the entity continues its revenue growth trajectory and profitability on a sustained basis along with an improvement in its liquidity position.

Negative factors – The ratings could be downgraded if the entity shows a significant decline in OI and profitability on a sustained basis, or if there is any deterioration in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group support	Not applicable
Consolidation/Standalone	**Consolidation** The ratings are based on the consolidated financials of Elkay Chemicals Private Limited (ECPL) and its subsidiary, Silicone International Products (SIP)

About the company

Elkay Chemicals Private Limited (Elkay/the company) was set up in 1986 by Mr. Annarao K Lokapur and Mr. R D Kulkarni. It manufactures specialty chemicals from silicone, which are used in industries such as textiles, agriculture, construction, rubber and pharmaceuticals. The company has a facility at Bhosari in Maharashtra and is an exporter of silicone products & solutions and has an installed capacity of 7,620 MTPA. Elkay also has manufacturing facilities at Khopoli and Lote for manufacturing high-quality silicone fluids and emulsions. Elkay commenced exports in 1998 and exports (28 countries, including USA, Europe, Asia, Oceania and Middle East) half of its annual output.

Elkay is also a partner in firms - Silicone International Products (96% profit sharing) and Elkay Speciality Products (2.5% profit sharing).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	297.22	299.98
PAT	51.60	23.32
OPBDIT/OI	26.49%	9.32%
PAT/OI	17.36%	7.77%
Total outside liabilities/Tangible net worth (times)	0.60	0.37
Total debt/OPBDIT (times)	0.20	0.55
Interest coverage (times)	25.41	12.14

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 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 22, 2023	Nov 24, 2022	Dec 21, 2021	Nov 27, 2020
1	Fund based-Overdraft facilities	Long term	12.50	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Fund based – EPC/PCFC	Long term	(5.00)	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Non-fund-based limits	Short term	6.50	--	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3
4	Non-fund based –LC	Short term	(5.00)	--	[ICRA]A2	[ICRA]A2	-	-
5	Non-fund based/BG	Short term	(0.25)	--	[ICRA]A2	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term overdraft facilities	Simple
Fund based –EPC/PCFC	Simple
Non-fund based limits	Very Simple
Non-fund based –LC	Very Simple
Non-fund based/BG	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	Long-term overdraft facilities	-	-	-	12.50	[ICRA]BBB+(Stable)
NA	Fund based –EPC/PCFC	-	-	-	(5.00)	[ICRA]BBB+(Stable)
NA	Non-fund based limits	-	-	-	6.50	[ICRA]A2
NA	Non-fund based –LC	-	-	-	(5.00)	[ICRA]A2
NA	Non-fund based/BG	-	-	-	(0.25)	[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	Ownership	Consolidation Approach
Silicone International Products	96%	Full Consolidation

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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.

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