March 12, 2024

Industrial Solvents & Chemicals Private Limited: Long-term rating reaffirmed and short-term rating downgraded to [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	145.00	145.00	[ICRA]A+(Stable)/[ICRA]A1; long-term rating reaffirmed, short-term rating downgraded from [ICRA]A1+
Non-fund based limits	173.90	173.90	[ICRA]A1; rating downgraded from [ICRA]A1+
Total	**318.90**	**318.90**	

Instrument details are provided in Annexure-I

Rationale

The short-term rating downgrade for Industrial Solvents & Chemicals Private Limited (ISCPL/company) has been driven by the moderation in the company's liquidity position owing to the continued share buybacks since FY2020. The buybacks have reduced the free cash balances as also the cushion in working capital borrowings, thereby moderating the liquidity position.

The reaffirmation of the long-term rating considers ISCPL's position as one of the leading manufacturers of di-methyl sulphate (DMS) and di-ethyl sulphate (DES). The financial risk profile is characterised by healthy coverage indicators and a comfortable capital structure. The ratings note the company's diversified customer base, the established track record of the promoters in the chemical manufacturing business, the strong competitive advantage enjoyed by ISCPL owing to its multi-product facility and the high entry barriers in its segment of business operations.

The ratings are, however, constrained by the exposure of the company's profitability to adverse fluctuations in raw material prices and other input costs like freight expense and currency movements. The ratings consider the vulnerability of ISCPL's operations to the cyclicality in the chemical industry and the growing risk of regulatory tightening.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that ISCPL's financial performance will continue to benefit from its established position in the DMS and DES segments, which coupled with the moderate capex plans should support its credit profile in the medium term.

Key rating drivers and their description

Credit strengths

Established track record of promoters in chemical manufacturing business; one of the largest global DES and DMS manufacturers – ISCPL was incorporated in 1959 by Mr. Pravin R. Shah and family. The company manufactures various organic and inorganic chemicals such as DMS, DES, alkylated anilines, sulphuric acid and ethers. It has built strong in-house technical capabilities, providing competitive advantage over other players. ISCPL enjoys a dominant share in the DMS and DES markets, both domestic and global.

High entry barriers through large capital requirements and highly hazardous nature of products – The company faces limited competition from new entrants due to the high capex required to set up the manufacturing facility. Moreover, the products are hazardous in nature and require excessive caution for production, handling and storage, thus adding to the entry barriers.

Diversified customer base – The company's customers in the export market mainly include surfactant manufacturers, while domestic customers are primarily players in dyes, pigments and the pharmaceutical sector. ISCPL's customer base is highly diversified with the top five export and domestic customers each accounting for 15-30% of the total sales.

Healthy financial risk profile – The company posted a revenue of Rs. 828.9 crore in FY2023 compared with Rs. 742.0 crore in FY2022 on the back of a healthy growth in volumes, which also supported a moderate improvement in the operating margins to 10.5% in FY2023 from 8.8% in FY2022. The profitability further improved in H1 FY2024. However, ICRA notes that subdued demand followed by a planned shutdown of the plant will moderate the performance in H2 FY2024. Further, the continued substantial share buybacks have depleted the net worth over the last several years. Nonetheless, the capital structure remained healthy with TD/TNW at 0.42 times and interest coverage at 18.3 times (63.2 times in FY2022). The TD/OPBDITA improved to 0.93 times in FY2023 (1.26 times in FY2022), indicating a healthy credit profile. While the company's financial profile is expected to remain healthy, any significant buyback of shares resulting in further reduction of the net worth and moderation of the liquidity profile remains a key monitorable.

Credit challenges

Profitability exposed to volatility in raw material prices and other input costs – The company enters into fixed-price contacts with some of its customers, thus keeping the margin vulnerable to the volatility in raw material prices. While the company passes on the price increase with a time lag, a significant rise in raw material prices adversely impacts the margin due to its inability to entirely pass this on to its customers. Nonetheless, in FY2023 and H1 FY2024, the profit margin improved on account of a healthy growth in volumes.

Operations susceptible to cyclicality in end-user industries – The chemical industry is closely linked to the overall pace of industrial activity and economic growth. ISCPL's operations are, therefore, exposed to the cyclical peaks and troughs in the end-user industries, which include textiles, surfactants, agrochemicals and personal care products.

Increasing risk of regulatory tightening – The company's product profile includes hazardous material that requires dedicated containers for transport, and other remedial measures as environmental regulations become more strict globally. With rising concerns of environmental pollution, ISCPL is susceptible to the risk of regulatory tightening, which may necessitate additional investments for regulatory compliance.

Liquidity position: Adequate

ISCPL's liquidity profile is expected to be adequate in the near term, with no long-term debt repayments and moderate capex plans. The liquidity is further supported by a cash balance of ~Rs. 3.44 crore as on March 31, 2023, and availability of unutilised working capital limits. However, ICRA notes that the liquidity profile has moderated due to continued large share buybacks in the last few years, lowering the cash balance. The working capital requirement is expected to reduce with the moderation in input prices, resulting in release of working capital and aiding the liquidity position of the company hereon.

Rating sensitivities

Positive factors – An upward movement in the ratings could take place if the company demonstrates a sustained growth in operating income and profits while maintaining healthy capitalization and coverage metrics along with healthy liquidity position.

Negative factors – Pressure on the ratings could arise if there is a sustained decline in the scale of operations and profits. Further, any stretch in the working capital cycle, or a large debt-funded capex, exerting pressure on the liquidity position may trigger a downgrade. A specific trigger for downgrade includes TD/OPBDITA of more than 1.5 times on a sustained basis.

Further, continued share buybacks resulting in a further reduction in net worth and limiting the recovery or further weakening of the liquidity profile would also be a rating sensitivity factor.

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 financial profile of the company

About the company

ISCPL, incorporated by Mr. Pravin R. Shah and family in 1959, began operations by trading in chemicals and pharmaceuticals. Subsequently, the company ventured into manufacturing various organic and inorganic chemicals, such as DMS, DES, alkylated anilines, sulphuric acid and ether. Its manufacturing facility is at Ankleshwar, Gujarat. The company has a subsidiary (51% ownership), ISC Chemspec LLP, which was planning to set up a greenfield project at Dahej, Gujarat has now been dropped .

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	742.0	828.9	384.0
PAT	39.3	53.9	33.2
OPBDIT/OI	8.8%	10.5%	13.8%
PAT/OI	5.3%	6.5%	8.7%
Total outside liabilities/Tangible net worth (times)	1.1	0.9	
Total debt/OPBDIT (times)	1.3	0.9	
Interest coverage (times)	63.3	18.3	

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

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 Mar 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 12, 2024	Jan 19,2023	Nov 26,2021	August 10,2020
1	**Fund-based limits**	Long-term and Short-term	145.00	-	**[ICRA]A+(Stable)/ [ICRA]A1**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**	**[ICRA]A+(Stable)/ [ICRA]A1+**
2	**Non-fund based limits**	Short-term	173.90	-	**[ICRA]A1**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term and Short-term fund-based based facilities	Simple
Short-term non-fund based facilities	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
-	**Fund based working capital limits**	NA	NA	NA	145.00	[ICRA]A+ (Stable)/ [ICRA]A1
-	**Non-fund based limits**	NA	NA	NA	173.90	[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- 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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