March 20, 2024

Alchemie Finechem Private Limited (erstwhile Alchemie Laboratories): Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term fund-based /Non-fund-based	50.75	50.75	[ICRA]BBB+(Negative)/[ICRA]A2; reaffirmed
Long term fund-based term loan	0.00	225.0	[ICRA]BBB+(Negative); assigned
Long term fund-based limits	0.00	5.0	[ICRA]BBB+(Negative); assigned
Long term/short term unallocated limits	0.00	50.0	[ICRA]BBB+(Negative)/[ICRA]A2; assigned
Total	**50.75**	**330.75**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factor in the extensive experience of Alchemie Finechem Private Limited (AFPL) in manufacturing diethyl phthalate (DEP) and other speciality chemicals. The company enjoys operational synergies with Aarti Industries Limited (AIL) in the form of marketing support for sales and bulk procurement of raw materials. The ratings also take into consideration the company's established relationships with reputed customers in the domestic and international markets.

The ratings, however, remain constrained by the company's moderate scale of operations with reduction in operating margins and concentrated product profile with DEP contributing 32% to the revenues in FY2023. ICRA, however, notes that the contribution of the high-margin products, such as ethyl benzyl aniline sulphuric acid (EBASA) etc., has increased in the last few years. The ratings also remain tempered by the vulnerability of the company's profitability to the fluctuation in raw material prices, mitigated to a certain extent by the reset of prices on a regular basis for both domestic and international clients. The ratings also consider the working-capital intensive business, reflected in a net working capital intensity of 44% in FY2023. Further, the planned large capex in the medium term would entail debt inflow and require deployment of internal accruals. The capital structure and debt servicing indicators are expected to moderate with the influx of term loans and optionally convertible non-cumulative preference shares (OCPS). ICRA also notes the short tenor and optionality in converting OCPS, which may expose AFPL to refinancing risks.

The outlook for Alchemie Finechem Private Limited (AFPL/the company) continues to be Negative on account of a moderation in the company's operating margins in FY2023 and YTD FY2024, following weak demand for discretionary chemical products amid the global destocking and recessionary trends. Though the company has a 40% share in direct export revenue, AFPL's exposure to the volatility in the global market is higher as its clients export the end products. ICRA also notes the large ongoing capex plans and the associated risks.

Key rating drivers and their description

Credit strengths

Established track record of the company in manufacturing chemicals; strong linkages to AIL – AFPL is a part of the Aarti Group of companies and is managed by an experienced management team of Aarti Industries Limited (AIL). Mr. Rashesh Gogri has over a decade's experience in the chemical industry and looks after the company's overall management. Mr. Monil Vikam has an extensive track record in the chemical industry, with an experience of more than 15 years. The company enjoys operational synergies due to its strong linkages with AIL in the form of marketing support for sales and bulk procurement of raw materials.

Established relationships with reputed customers in domestic and overseas markets– AFPL derives 30-40% of its revenues from exports and the remaining from the domestic market. The company's customer base includes reputed players such as Colourtex Industries Pvt Ltd, Chemixil Corporation, Roha Dyechem Pvt Ltd, Shiv Corporation and Spectrum Dyes & Chemicals Private Limited., among others.

Credit challenges

Moderate scale with reduction in operating margins; margins remain susceptible to fluctuations in raw material prices – AFPL's scale of operations is moderate with an operating income of Rs. 240.58 crore in FY2023, and the revenues are expected to decline in FY2024. Further, the company's dependence on a single product (DEP) remains high. However, going forward, the revenue growth is expected to be supported by increased product diversification. The operating profits moderated to 13.4% in FY2023 from 18-20% earlier owing to the weak industry demand for AFPL's discretionary chemical products amid the global destocking and recessionary trends. ICRA expects the operating profits to continue to be muted in FY2024 because of these issues. However, ICRA expects healthier margins in the long term with the capex undertaken for a new product portfolio. The raw material prices are linked to crude oil price movements and the demand-supply balance in the market. The company's ability to pass on the impact of raw material price fluctuations to its customers will remain crucial to sustain its profit margin.

Large capex plans in the medium term– AFPL plans to set up a new unit in Gujarat. The estimated capex is Rs. 535 crore over the next two years, to be funded by internal accruals and preference shares (Rs. 310 crore), and term loan from bank (Rs. 225 crore). Of the total capex, Rs. 280 crore has been incurred as on February 2024. The capital structure and debt servicing indicators are expected to moderate with the influx of term loans and optionally convertible non-cumulative preference shares (OCPS). ICRA also notes the short tenor and optionality in the conversion of OCPS, which may expose the company to refinancing risk. However, the additional revenues and operating profits from the proposed capex is expected to maintain the coverage indicators at adequate levels in the long term.

Working capital intensive nature of operations– The company's operations are working capital intensive, reflected in the high net working capital intensity (NWC/OI) of 44% in FY2023 (30% in FY2022) with high advances to suppliers combined with moderation in creditors.

Liquidity position: Adequate

AFPL's liquidity profile is adequate, backed by steady accruals and low utilisation of limits with a healthy liquidity buffer. Though the company plans to undertake significant capex in the medium term, it is likely to be funded comfortably through a mix of term loan from bank, preference shares from promoters and the remaining through internal accruals.

Rating sensitivities

Positive factors – Given the negative outlook on the ratings, an upgrade in the near term is unlikely. The outlook could be revised to stable with improvement in AFPL's scale and profitability on a sustained basis, while maintaining the liquidity position.

Negative factors – The ratings may witness pressure if the scale and profit margins witness a sustained deterioration. Any substantial dividend payout and larger-than-estimated debt-funded capex putting pressure on the cash flows and debt coverage metrics may also result in a rating downgrade. Specific credit metrics that could lead to a rating downgrade include interest coverage of less than 3.5 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	For arriving at the ratings, ICRA has considered the standalone financials of AFPL

About the company

AFPL, established in 1975 as a proprietorship firm, was converted into a private limited entity in May 2021. It manufactures DEP, ethyl benzyl aniline sulphuric acid, di ethyl meta toluidine, di methyl para toluidine, N ethyl ortho toluidine and other speciality chemicals. The products cater to the perfume, food colour and dye and pigment industries, among others. Its manufacturing unit is at Dombivli, Thane (Maharashtra), with an installed production capacity of 24,920 metric tonnes per annum. AFPL is a part of the Aarti Group of companies and is run by the experienced management team of AIL.

Key financial indicators (audited)

AFPL	FY2022*	FY2023
Operating income	233.69	240.58
PAT	30.20	20.49
OPBDIT/OI	18.31%	13.42%
PAT/OI	12.92%	8.52%
Total outside liabilities/Tangible net worth (times)	0.70	0.95
Total debt/OPBDIT (times)	0.98	2.36
Interest coverage (times)	11.29	6.39

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

* *FY2022 figures are arrived using 2M FY2022 (April-May 21 2022) + 10M FY2022 figures. On May 2021, the private limited has been incorporated from the earlier partnership firm. Balance sheet was taken as on March 31, 2022 and P&L was merged for 2M FY2022 + 10M FY2022.*

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 Feb 29, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 20, 2024	December 27, 2023	September 30, 2022	Jun 25, 2021	-
1	Fund-based/Non-fund based	Long-term / Short-term	50.75	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable) /[ICRA]A2	-
2	Fund based – term loan	Long-term	225.0	51.0*	[ICRA]BBB+ (Negative)	-	-	-	-
3	Fund based limits	Long-term	5.0	-	[ICRA]BBB+ (Negative)	-	-	-	-
4	Unallocated limits	Long-term/short term	50.0	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-	-	-

*Only Rs.51 crore has been disbursed of the Rs.225.0 crore as on Feb 29, 2024

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term fund-based/Non-fund based	Simple
Long term fund-based term loan	Simple
Long term fund-based limits	Simple
Long term/short term unallocated limits	NA

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	**Fund-based/Non-fund based limits**	NA	NA	NA	50.75	[ICRA]BBB+(Negative) /[ICRA]A2
NA	**Fund based – term loan**	Jul-2023	8.50%	Jul-2030	225.0	[ICRA]BBB+(Negative)
NA	**Fund based limits**	NA	NA	NA	5.0	[ICRA]BBB+(Negative)
NA	**Unallocated limits**	NA	NA	NA	50.0	[ICRA]BBB+(Negative) /[ICRA]A2

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Kushal Kumar B
+91 40 6939 6408
kushal.kumar@icraindia.com

Prashant Vasisht
+91 124 4545322
Prashant.vasisht@icraindia.com

Arvind Srinivasan
+91 44 4596 4323
arvind.srinivasan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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:

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.

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