March 26, 2024

Acme Chem Limited: Ratings reaffirmed

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(Stable)/[ICRA]A1; reaffirmed
Total	**10.0**	**10.00**	

Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings continues to factor in the established presence of the Group in the rubber chemicals industry. The ratings draw comfort from the strategic location of Unit 1 near Unit 2 in the Panoli chemical hub of Gujarat. This proximity, coupled with the Group's established relationships with reputed automobile tyre manufacturers, ensured repeat businesses over the years.

ICRA notes that Finorchem Limited (erstwhile Merchem Limited) has completed the capex to launch new products. Also, the company has planned further capex plans over the near term to secure a critical raw material for one of its existing products. The capex is to be funded through internal accruals, existing cash reserves and debt. Consequently, leverage and coverage metrics are expected to be moderate in the near to medium term. Following the capex completion, the company's ability to stabilise the new facilities and ramp up sales within a short gestation period will be crucial. Nevertheless, the financial profile is likely to remain comfortable, supported by healthy profits at an absolute level and a conservative capital structure. Further, market acceptance of the new products and their subsequent scaling-up in the near term are likely to support the company's revenue growth and provide scope for improvement in its operating margins.

However, the ratings are constrained as Finorchem's Unit 2 is yet to achieve optimal capacity utilisation, although it is witnessing a gradual ramp-up in volumes. Going forward, revenue growth will depend on achieving the optimal capacity utilisation for Unit 2. Further, rubber chemical manufacturing remains 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 its raw materials is imported. However, this forex risk is mitigated to an extent by a partial natural hedge and the quarterly revision of sale 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.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the Group's incremental capex, which will help expand the product portfolio and enable backward integration, will be funded in a manner to durably maintain its debt protection metrics that are commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established presence in rubber chemicals industry – The company is an established player within the speciality rubber chemicals industry. Finorchem has two operating chemical manufacturing units - Unit 1 (the rubber chemical manufacturing unit of ACL transferred to Finorchem after the 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, however, its product portfolio remains limited compared to its larger peers. Unit 2 has an established track record in the speciality chemical industry, with a reputed brand name, primarily catering to the tyre industry, and has a larger product range as well as higher capacity than Unit 1. However, the clientele, mainly belonging to the tyre industry, is similar for both units.

Healthy financial risk profile – The planned debt-funded capex is likely to moderate leverage and coverage metrics in the near to medium term. Nevertheless, the financial profile is likely to remain comfortable with healthy profits at an absolute level and a conservative capital structure. Over the near term, market acceptance of the new products and their subsequent scaling-up are likely to support revenue growth and provide scope for improvement in its operating margins.

Strategic location of plants – Finorchem's units are located at the chemical hub in Gujarat, with 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. The entity 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.

Credit challenges

Gradual ramp-up in Unit 2's volumes, however, yet to achieve optimal capacity utilisation – Finorchem's Unit 2 commenced commercial production in December 2020. Although 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. However, it improved to 59% in 9M FY2024. Going forward, further revenue growth will depend on Unit 2 achieving optimal capacity utilisation and market acceptance of new products.

High sectoral concentration risk – The Group's clientele 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 raw materials (~74% in FY2023) required for rubber chemical manufacturing 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 a cushion in working capital limits. The average working capital utilisation was ~49% of the sanctioned working capital limits between February 2023 and January 2024, providing a cushion to the liquidity. The term loan repayment obligations are ~Rs. 29 crore in FY2024 and ~Rs. 45 crore in FY2025. Further, the group has plans for capex in FY2024 and FY2025, which are likely to be funded from a mix of internal accruals, cash reserves and debt.

However, the estimated cash flow from operations would be adequate to service the repayment obligations and meet the equity commitment towards capex. Further, healthy cash and liquid investments are likely to support the consolidated liquidity position.

Rating sensitivities

Positive factors – Significant improvement in consolidated revenue and profitability on a sustained basis, may lead to a rating upgrade. A specific credit metric for an upgrade includes 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 exert pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Chemical industry
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

Acme Chem Limited (ACL), incorporated in 1992, is promoted by Mr. Narain Holani. Prior to the scheme of arrangement, ACL manufactured a few select grades of speciality chemicals, which were used as critical inputs for rubber manufacturing in small proportions. It manufactured rubber chemicals like peptisers, antioxidants, pre-vulcanising inhibitors, accelerators and others, which were 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 MTPA.

Finorchem Limited (erstwhile Merchem Limited), incorporated in 1994, was involved in the manufacturing of speciality rubber and a few other chemicals. However, the company discontinued its operations due to financial stress. In FY2019, Finorchem was acquired by Acme Chem Limited 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 metric tonnes per annum (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 is not operational.

Further, following the National Company Law Tribunal's (NCLT) approval for the scheme of arrangement, ACL's rubber chemical manufacturing division was transferred to Finorchem. Moreover, 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, engages in investing activities and deals in real estate.

Key financial indicators

Consolidated	FY2022	FY2023
Operating income	420.3	576.3
PAT	66.1	55.0
OPBDIT/OI	17.4%	11.8%
PAT/OI	15.7%	9.5%
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; 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	
				March 26, 2024	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 (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 FY2023

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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.

For more information, visit www.icra.in

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