April 18, 2024

Nitrex Chemicals India Limited: Rating upgraded to [ICRA]A2+ and removed from Issuer Non-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Export bill discounting facility	20.00	20.00	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Fund-based – Overdraft^	(6.50)	(6.50)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Fund-based – Short-term loan^	(10.00)	(10.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Fund-based - Pre-shipment credit under export letter of credit^	(20.00)	(20.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Fund-based - Pre-shipment credit under export order^	(20.00)	(20.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Non-fund based - Import letter of credit – Secured^	(15.00)	(15.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Non-fund based - Import letter of credit – Unsecured^	(15.00)	(15.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Non-fund based - Bond and guarantee^	(7.00)	(7.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Non-fund based - Financial guarantee^	(15.00)	(15.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Fund-based - Credit bill negotiated^	(15.00)	(15.00)	[ICRA]A2+; rating upgraded from [ICRA]A2 ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*
^Sublimit of export bill discounting facility

Rationale

The rating upgrade reflects an improvement in the financial risk profile and liquidity position of Nitrex Chemicals India Limited (NCIL/the company), driven by strong cash generation amid a healthy demand for the company's products and favourable trade protection measures. The rating upgrade also factors in the company's leading position in the domestic nitrocellulose market along with an improvement in the liquidity position and the comfortable capital structure and coverage metrics because of its strong net worth and minimal reliance on external working capital funding. ICRA continues to favourably factor in the extensive experience of NCIL's management in the chemical industry, repeat orders from its domestic and international clients and the established relationships with its suppliers.

ICRA has removed NCIL's rating from the Issuer Not Co-operating category as the entity has paid the surveillance fee and shared the requisite information for carrying out the rating exercise as well.

The rating, however, remains constrained by the highly regulated nitrocellulose industry due to the product's explosive nature. Any unfavourable change in the regulatory policies will have an adverse bearing on the company's revenues. ICRA also notes that though the anti-dumping duty (ADD) imposed on nitrocellulose originating in or exported from Thailand, Indonesia and Brazil has partly mitigated the impact of competition, the threat from imports remains. Further, the continuation of ADD after July 2024 will remain a key monitorable.

The rating continues to factor in the high dependence on creditor funding. However, the total outside liabilities/total net worth (TOL/TNW) remains comfortable due to the low external debt. NCIL is carrying out sizeable capex for increasing its production capacity and backward integration for the in-house production of concentrated nitric acid (CNA), which is expected to be funded through internal sources and implemented over the course of FY2025 and FY2026. The company will be exposed to project execution risks and the implementation of the project without major time and cost overrun will remain a key monitorable.

Key rating drivers and their description

Credit Strengths

Extensive experience of directors and promoters in chemical industry - The company's management has an experience of nearly three decades in the chemical industry, which has been instrumental in forging relationships with its customers and suppliers. This has also helped in diversifying NCIL's market reach in the domestic and international markets.

Improvement in scale of operations – In FY2023 and 9M FY2024, the company continued to witness healthy growth in volumes and revenue, aided by improved realisation. In FY2023, the revenue grew 39% with an operating income (OI) of ~Rs. 457 crore, driven by the increase in sales volumes and realisations. On the profitability front, the OPM improved to 9.6% in FY2023 from 7.4% in FY2022 on account of higher realisations and stable raw material costs. In 9M FY2024, the OPM further improved to 13.1% due to lower input costs. However, the margin remains susceptible to the volatility in raw material prices. Going forward, the revenues are expected to witness growth, backed by an improvement in volumes on account of healthy demand and increase in capacity utilisation.

Comfortable capital structure and robust coverage indicators – The company's capital structure has historically remained healthy as it continues to have limited reliance on bank borrowings. Over the years, the company's coverage metrics have also remained healthy. The interest coverage and DSCR stood at 81.1 and 67.0 times, respectively, in FY2023 compared with 54.2 times and 12.9 times in FY2022 due to an improvement in profitability. The total debt/OPBITDA stood at 0.16 times as on March 31, 2023, compared with 0.20 times as on March 31, 2022. The net debt/OPBITDA remained negative.

Credit Challenges

Exposure to regulatory risk owing to highly explosive nature of product - The company's key product, nitrocellulose, is highly explosive in nature. Consequently, there are stringent norms in place and the industry is tightly regulated by the Government. Thus, any unfavourable change in regulatory policies may adversely affect the company's revenues as it manufactures only nitrocellulose.

High dependence on creditor funding; however, TOL/TNW remains comfortable – The major raw materials required for nitrocellulose production are wood pulp, raw cotton linter and concentrated nitric acid, which are procured from the domestic and international markets. Further, the working capital requirements are largely funded through creditors with high creditor days of 130 for FY2023 (P.Y 177 days). However, the TOL/TNW remains comfortable at 0.59 times as on March 31, 2023 (0.67 times as on March 31, 2022) due to its strong net worth base and low external debt, along with other liabilities.

High competition – The company faces competition from nitrocellulose imports from countries like Thailand, Brazil, Taiwan etc. Although the anti-dumping duty (ADD) imposed on nitrocellulose, originating in or exported from Thailand, Indonesia and

Brazil, has partly mitigated the impact of competition, the threat from imports remains. Further, the continuation of ADD post July 2024 will remain a key monitorable.

Project execution risks - The company is also carrying out a capex of ~Rs. 50-55 crore in order to increase the installed capacity at both the plants to ~20,000 MT p.a. from ~16,500 MT by Q2 FY2025 with the expected increase in demand for its products. The company has incurred Rs. 40-45 crore till now. The company is also planning to set up a captive nitric acid plant which will help improve the operating margins as nitric acid is one of the key raw materials. The plant is likely to be completed in FY2026 at a project cost of ~Rs. 50-60 crore. Both the projects are likely to be to be funded from internal sources (including cash and bank balance) and expected to be completed in the next two-three years. The company will be exposed to project execution risks and the implementation of the projects without major time and cost overrun will be crucial and monitored.

Liquidity position: Adequate

NCIL's liquidity position is adequate with healthy fund flow from operations (FFO) over the last few years, availability of unutilised working capital limits (average utilisation of 3% of limits during the last 12 months ended December 2023), and cash and bank balance of Rs. 99.1 crore as on March 31, 2023 which is being held as fixed deposits in banks. While the company has no major repayment obligation, it has capex plans of ~Rs. 70-80 crore over FY2025-FY2026, which will be funded through internal accruals and cash and bank balance.

Rating sensitivities

Positive factors – ICRA is likely to upgrade NCIL's rating if the company exhibits a healthy growth in the scale of operations and profitability on a sustained basis, while effectively managing its working capital cycle, leading to an improvement in the financial risk profile and sustaining healthy credit metrics.

Negative factors – Pressure on the rating could emerge if there is a significant moderation in the scale of operations or profitability on a sustained basis, or if there is a stretch in the working capital cycle, or if there is a large debt-funded capex that would weaken the liquidity profile or credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Chemical Industry
Parent/Group support	None
Consolidation/Standalone	The rating is based on the standalone financial profile

About the company

NCIL was established on March 16, 2004 by ACTIS, a private equity organisation promoted by CDC PLC., UK, for taking over the nitrocellulose and trading business of ICI India Limited in a management buyout. As on date, the Lodha Group owns a 99.7% stake in the company through associate group companies, such as Nitrex Mauritius Limited, Sirius Financial Services Private Limited and Rasna Processors Private Limited. NCIL manufactures industrial grade nitrocellulose from wood pulp and bleached cotton linters with nitrogen content in the range of 10.7–12.2%.

Nitrocellulose, a film forming resin, is used in auto refinish paints, wood lacquers, printing inks, leather finishing lacquers, nail varnishes, and in other miscellaneous applications. It has two manufacturing units at Valsad (installed capacity of 9,360 MTPA) and Jhagadia (installed capacity of 7,200 MTPA), both in Gujarat. Its registered office is in New Delhi and its corporate office is in Ahmedabad (Gujarat).

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	329.4	456.6	371.5
PAT	16.3	31.2	35.4
OPBDIT/OI	7.4%	9.6%	13.1%
PAT/OI	4.9%	6.8%	9.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	
Total debt/OPBDIT (times)	0.2	0.2	
Interest coverage (times)	54.2	81.1	194.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 28, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 18, 2024	Jan 10, 2024	Mar 20, 2023	Dec 31, 2021
1	Export bill discounting facility	Short-term	20.00	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
2	Overdraft*	Short-term	(6.50)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
3	Short-term loan*	Short-term	(10.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
4	Pre-shipment credit under export letter of credit*	Short-term	(20.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
5	Pre-shipment credit under export order*	Short-term	(20.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
6	Import letter of credit - Secured*	Short-term	(15.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
7	Import letter of credit - unsecured*	Short-term	(15.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
8	Bond and guarantee*	Short-term	(7.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
9	Financial guarantee*	Short-term	(15.00)	-	[ICRA]A2+	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 28, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 18, 2024	Jan 10, 2024	Mar 20, 2023	Dec 31, 2021
10 Credit bill negotiated*	Short-term	(15.00)	-	**[ICRA]A2+**	**[ICRA]A2; ISSUER NOT COOPERATING**	**[ICRA]A2**	**[ICRA]A2**

**Sublimit of export bill discounting facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export bill discounting facility	Very Simple
Overdraft*	Simple
Short term loan*	Simple
Pre-shipment credit under export letter of credit*	Very Simple
Pre-shipment credit under export order*	Very Simple
Import letter of credit – Secured*	Very Simple
Import letter of credit – Unsecured	Very Simple
Bond and guarantee*	Simple
Financial guarantee*	Simple
Credit bill negotiated*	Very Simple

**Sublimit of export bill discounting facility*

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	Export bill discounting facility	NA	NA	NA	20.00	[ICRA]A2+
NA	Overdraft*	NA	NA	NA	(6.50)	[ICRA]A2+
NA	Short-term loan*	NA	NA	NA	(10.00)	[ICRA]A2+
NA	Pre-shipment credit under export letter of credit*	NA	NA	NA	(20.00)	[ICRA]A2+
NA	Pre-shipment credit under export order*	NA	NA	NA	(20.00)	[ICRA]A2+
NA	Import letter of credit - Secured*	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Import letter of credit - Unsecured*	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Bond and guarantee*	NA	NA	NA	(7.00)	[ICRA]A2+
NA	Financial guarantee*	NA	NA	NA	(15.00)	[ICRA]A2+
NA	Credit bill negotiated*	NA	NA	NA	(15.00)	[ICRA]A2+

*Source: Company, *Sub-limit of export bill discounting facility*

Annexure II: List of entities considered for consolidated analysis- Not applicable

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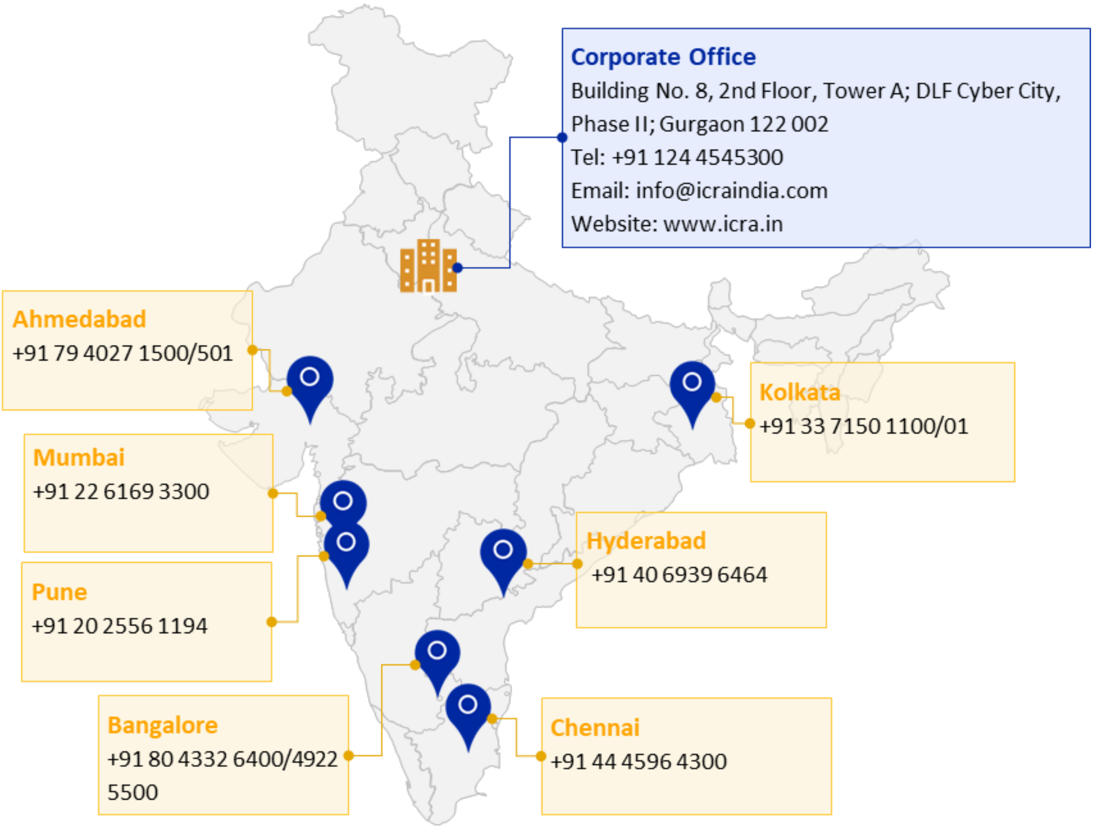

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