April 30, 2024

Resil Chemicals Private Limited: Ratings reaffirmed and assigned for enhanced rated amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Working capital	67.50	81.50	[ICRA]A- (Stable); reaffirmed/assigned for enhanced amount
Long term – Term loan	24.48	53.63	[ICRA]A- (Stable); reaffirmed/assigned for enhanced amount
Short term - Non-fund based	12.75	12.75	[ICRA]A2+; reaffirmed
Short term – Interchangeable^	(6.00)	(6.00)	[ICRA]A2+; reaffirmed
Total	**104.73**	**147.88**	

**Instrument details are provided in Annexure-I; ^Sublimit of CC*

Rationale

The reaffirmation of the ratings continues to factor in the diversified product portfolio of Resil Chemicals Private Limited (RCPL) across industries, providing revenue stability in adverse conditions, and its long-term relationship with customers. RCPL's consolidated revenue has witnessed a sharp growth in the last two years, driven by the textile segment and continued growth in the non-textile segment along with new customer acquisitions. The capital structure and coverage indicators continue to be comfortable. The ratings also factor in RCPL's substantial market share in the Indian silicon-based textile finishing agents (TFA) market and the company's continuous efforts to develop new products through investments in research and development.

The ratings, however, are constrained by the vulnerability of the company's profitability to fluctuations in raw material prices with limited bargaining power. The operating margins declined significantly in FY2023 owing to inventory losses caused by a sharp decline in raw material prices; however, the margins bounced back in FY2024 with stability in the later periods. The ratings are also constrained by high industry concentration risk with dependence on a single industry i.e., the textile industry, and the fragmented nature of the business with the presence of many players that limits the company's pricing flexibility.

The Stable outlook on the rating reflects ICRA's opinion that RCPL will continue to benefit from the extensive experience of its promoters, a meaningful market share in the Indian silicon-based TFA market and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Diversified product profile - RCPL has a diversified product profile as it manufactures a wide range of products, like textile finishing agents (TFA), speciality chemicals, process enhancers, organics, enzymes and lubricants under the textile segment. In the non-textile segment, RCPL manufactures performance enhancers, anti-foam agents, lubricants, car care products (under brand name Vista), personal care products and other products catering to industries such as leather, rubber and plastics, construction, pharmaceutical, etc. The diversified product portfolio lowers the business risk related to a product getting obsolete or the commoditisation of any specific product.

Comfortable capital structure and coverage indicators - As on March 31, 2023, the consolidated gearing was 0.6 times (0.7 times as on March 31, 2022) and the total outside liability/tangible net worth was 1.1 times. With weak margins, the interest coverage had deteriorated to 1.8 times in FY2023. However, the interest coverage is estimated at more than 6 times for FY2024 with the improvement in margins. The TD/OPBDITA was also higher at 4.5 times in FY2023 due to the weak margins, though in FY2024, it is estimated to be less than 2 times. ICRA also takes note of the company's debt-funded capex plans for the next two years. However, the capital structure and coverage indicators are expected to remain comfortable.

Established presence and long-standing customer relationship - RCPL has a diversified customer portfolio consisting of distributors, textile manufacturers, chemical and dye manufacturers, FMCG brands, etc. The customer concentration risk remains low for the company with the top 5 customers accounting for ~18-26% of the revenue in recent years. The company has a wide distribution network and established relationship with suppliers and distributors. In addition, the pre-sales and post-sales support offered to its customers provides revenue stability over the medium term.

Substantial market share in domestic silicon-based TFA market; continuous investment in research and development enhances market position - RCPL is a strong player in the Indian silicone-based TFA market. Moreover, the company continues to invest ~1.5%-3% of its operating income in R&D activities for new product development. ICRA also takes note of the company's capex plans for adding capacities for new products, which will aid further diversification of the product portfolio.

Credit challenges

Vulnerability of operating profitability to fluctuation in raw material prices - Raw materials account for 55-60% of the company's cost structure, which primarily involves the purchase cost of silicone intermediates. The company is able to partially pass on the volatility in raw material prices due to competition and hence the margins are susceptible to the fluctuation in raw material prices. The operating margins declined to ~3.8% on a consolidated basis in FY2023 owing to inventory losses caused by a sharp decline in raw material prices because of supply side constraints of the key raw material, silicon oil. The operating margins, however, improved to ~11% in FY2024 with stability in the supply and prices of raw materials. The margins remain susceptible to the volatility in raw material prices.

High competition limits pricing flexibility - A highly fragmented industry with elevated competition levels limits the company's pricing flexibility and restricts its margins. The other large players in the specialty chemicals segment include global silicone-based chemical manufacturers such as BASF Corporation, Clariant and Huntsman; and domestic manufacturers such as Britacel Silicones Limited and Fineotech Chemicals Ltd.

High industry concentration risk - RCPL derives 65-80% of its revenues from the textile segment, exposing its revenues to the cyclicality in the textile industry.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by cash accruals that have witnessed healthy growth in FY2024, and the availability of unutilised working capital limits. ICRA notes that the utilisation has remained at an average of ~65% in the last 12 months ended February 2024. The company has a repayment obligation of Rs. 9.28 crore in FY2025 and Rs. 8.69 crore in FY2026 and has capex plans of ~Rs. 20-25 crore per year over the next two years (FY2025 and FY2026), which will be funded by a mix debt and internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company's operating income and profitability witness substantial improvement on a sustained basis, strengthening the credit metrics further.

Negative factors – The ratings will be downgraded if the revenue and profitability are adversely impacted on a sustained basis, weakening the coverage indicators. Any increase in the working capital intensity, or a higher-than-anticipated capex leading to a stretch in the liquidity position could also lead to a downgrade. A specific credit metric for downgrade would be total debt/OPBDITA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. The details of consolidation is provided in Annexure 2.

About the company

Resil Chemical Private Limited (RCPL), incorporated by Mr. M.S. Mohan and his brother Mr. M.S Vijayan in 1991, commenced operations as an indenting agent for the sale of silicones. In 1994, RCPL integrated backwards to manufacture silicone-based textile finishing chemicals. The company also manufactures organic finishing agents, lubricants, enzymes and softeners for the textile industry. Over the years, RCPL has diversified its product range to include performance chemicals for industries like leather, rubber and plastics, construction, pharmaceutical, paper, agriculture, personal care and cosmetics and auto care (under the brand name Vista).

RCPL has its head office and R&D centre in Bengaluru and sales offices across the country (Tirupur, New Delhi, Mumbai, Ludhiana, Ahmedabad, and Kolkata). The company also has an overseas liaison office in Dhaka, Bangladesh. The manufacturing operations are carried out primarily from Malur, Kolar and Bommasandra, Bengaluru.

RCPL has a 100% subsidiary, N9 World Technologies Private Limited, which is a trading/marketing arm of RCPL for its nano-technology products. The subsidiary, based out of Bengaluru, started operations in FY2013 and caters to textile and plastic industries. Vista Innovations Private Limited and Klenza Life Sciences Pvt Ltd are the other subsidiaries.

Key financial indicators (audited)

RCPL Consolidated	FY2022	FY2023
Operating income	330.9	368.1
PAT	20.6	1.1
OPBDIT/OI	12.4%	3.8%
PAT/OI	6.2%	0.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.1
Total debt/OPBDIT (times)	1.8	4.5
Interest coverage (times)	6.4	1.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

RCPL Standalone	FY2022	FY2023	*9MFY2024
Operating income	321.2	358.9	286.5
PAT	19.8	1.1	20.0
OPBDIT/OI	12.3%	3.8%	11.9%
PAT/OI	6.2%	0.3%	7.0%
Total outside liabilities/Tangible net worth (times)	1.2	1.1	1.1
Total debt/OPBDIT (times)	1.85	4.55	1.57
Interest coverage (times)	6.4	1.8	6.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional financials*

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 Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
					Apr 30, 2024	-	Jan 30, 2023	May 31, 2022	May 10, 2022	Apr 16, 2021
1	**Fund-based limits**	Long Term	81.50	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
2	**Term loan**	Long Term	53.63	17.39	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)
3	**Fund-based limits**	Short Term	0.00	-	-	-	-	-	[ICRA]A2+	[ICRA]A2
4	**Non-fund based facilities**	Short Term	12.75	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5	**Interchangeable limits**	Short Term	(6.00)	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
6	**Unallocated limits**	Long Term/Short Term	0.00	-	-	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Working capital	Simple
Long term – Term loan	Simple
Short term - Non-fund based	Very Simple
Short term – Interchangeable	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	Term loan-I	Feb 2018	9.80%	Sep 2026	5.24	[ICRA] A- (Stable)
NA	Term loan-II	Jan 2020	9.80%	Mar 2026	2.36	[ICRA] A- (Stable)
NA	Term loan-III	Feb 2024	9.80%	May 2032	16.51	[ICRA] A- (Stable)
NA	Term loan-IV	Feb 2024	9.80%	Aug 2032	18.27	[ICRA] A- (Stable)
NA	Guaranteed emergency line of credit (GECL)	December 2021	9.55%	December 2026	11.25	[ICRA] A- (Stable)
NA	Cash credit	NA	9.50%	NA	71.50	[ICRA] A- (Stable)
NA	Standby line of credit	NA	NA	NA	10.00	[ICRA] A- (Stable)
NA	Letter of credit	NA	NA	NA	9.50	[ICRA]A2+
NA	Bank guarantee	NA	NA	NA	0.50	[ICRA]A2+
NA	PFCF/EPC/FBD/EBR	NA	NA	NA	(6.00)	[ICRA]A2+
NA	Forward contracts limit	NA	NA	NA	2.75	[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	RCPL Ownership	Consolidation Approach
N9 World Technologies Private Limited	100.00%	Full Consolidation
Klenza Lifesciences Private Limited	100.00%	Full Consolidation

Source: RCPL annual report FY2023

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About ICRA Limited:

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