July 09, 2024

Deepak Chem Tech Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	-	1,202.00	[ICRA]A (Stable); assigned
Long-term/Short-term - Fund based/ Non-fund based limits	200.00	200.00	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	**200.00**	**1,402.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to Deepak Chem Tech Limited (DCTL/the company) factor in the strong parentage of Deepak Nitrite Limited {DNL, rated [ICRA]AA (Positive)/[ICRA]A1+} and its strategic importance to the latter as the company is an extended arm of the parent entity.

The ratings continue to take into account the long operating track record of the Deepak Group {comprising Deepak Nitrite Limited, Deepak Phenolics Limited (DPL, rated [ICRA]AA (Positive)/[ICRA]A1+ and Deepak Chem Tech Limited} in the chemical industry, its diversified product mix and end-user industries. ICRA notes the Group's leading market position in most product segments across the domestic and global markets. The ratings also continue to factor in the Group's multi-purpose manufacturing facility with significant backward and forward integration with flexibility to change the product mix as per the market requirements. ICRA also notes the Group's technical expertise to handle complex and hazardous chemical processes like nitration, hydrogenation and diazotisation.

The ratings, however, will remain constrained by the exposure of DCTL's profitability to the volatility in raw material prices for the products which the company will manufacture, going forward.

ICRA notes that recently, DCTL has signed a Rs. 9,000-crore memorandum of understanding (MoU) with the Government of Gujarat on January 31, 2024, adding to the previous MoU worth Rs. 5,000 crore as on May 23, 2023, for capacity expansion of some existing products, new product addition, backward and forward integration and cost-saving measures. However, the capex comprises several smaller projects (under rated entities/subsidiaries/JV), with the execution phased over the next several years, which will mitigate the risk to some extent. Also, the company is executing projects worth around Rs. 2,000 crore (part of existing MoU worth Rs. 5,000 crore), of which majority (except one of the projects) will get commissioned by end of the current fiscal i.e. FY2025. ICRA notes that the company has commissioned a benzo tri fluoride project in March 2024.The large size of the capex exposes the Group to project implementation risks over the next couple of years. ICRA notes that the company is yet to finalise the phasing of the execution for a major part of the capex. ICRA will continue to monitor the developments on this front and it will remain a key monitorable, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit profile will remain stable, driven by its parentage and the expected ramp-up of the plants which will support the cash accruals.

Key rating drivers and their description

Credit strengths

Strong parent with a long operating history and established position in global chemical intermediates industry – DNL has been operating in the chemical industry for nearly five decades. Over the years, the company has become a market leader in the domestic market for inorganic intermediates (sodium nitrite and sodium nitrate), nitro toluenes and fuel additives. DNL is among the top five global players in xylidines, cumidines, colour intermediates and oximes. It is present in over 30 countries, including the US, the European Union, the East European nations, Japan, ASEAN countries, South Korea and South America.

DPL, a 100% subsidiary of DNL, commissioned its phenol and acetone plant in November 2018. Since the commissioning of its IPA plant in April 2020, DPL's scale and profitability significantly improved. Further, the total capacity of IPA has doubled after the commissioning of the brownfield expansion in December 2021. The company also undertook debottlenecking of the phenol capacity in H1 FY2024, which will support incremental cash generation for DPL. The domestic demand for phenol and acetone far exceeds the domestic production at present. Moreover, with limited domestic competition, DPL has been able to garner a significant market share in the Indian market.

Low offtake risks as a major portion of production will be captively consumed – The company has various projects under execution, namely benzo tri chloride (BTC), benzo tri fluoride (BTF), concentrated nitric acid (CNA), weak nitric acid (WNA), methyl isobutyl ketone (MIBK), methyl isobutyl carbinol (MIBC), specialty chemicals, ortho toluidine (OT) and meta aminobenzotrifluoride (MABTF). Majority of the chemicals will serve as backward and forward integration for the Group, which reduces the offtake risk. Hence, the projects, once completed, should provide an uplift to the cash generation from operations.

Credit challenges

Profitability exposed to volatility in raw material prices – The profitability of the company remains exposed to the volatility in raw material prices. As the products are largely of commodity nature, the profitability may be impacted when there is a significant
volatility in raw material prices. However, the risk is partly mitigated by the forward/backward integration of the products within the value chain of the Deepak Nitrite Group.

Project execution risks due to large-sized capex over the near to medium term - DCTL signed an MoU worth Rs. 9,000 crore with the Government of Gujarat on January 31, 2024, adding to the previous MoU worth Rs. 5,000 crore as on May 23, 2023 for capacity expansion of some existing products, new product addition, backward and forward integration and cost-saving measures. However, ICRA notes that the capex pertains to several smaller projects (under rated entities/subsidiaries/JV), with the execution phased out during an extended period, which will mitigate the risk to some extent.

Also, the Group is currently executing projects worth around Rs. 2,000 crore (part of existing MoU worth Rs. 5,000 crore), of which majority (except one of the projects) will get commissioned by end of the current fiscal i.e. FY2025. Further, the capex is not for a single project but several projects, which will be staggered over this period and each unit will be monetised/commence operation, even while the capex for the others might be ongoing. Such sizeable capex plans expose the company to execution and market risks, although this is mitigated to some extent by the track record of the company in completing the projects, including the phenol-acetone project under DPL. Further, majority of the chemicals will serve as backward and forward integration for the Group, which reduces the market risk. The development on this front remains a key monitorable.

Liquidity position: Adequate

DCTL's credit profile is expected to remain adequate, as the capex is being funded in a mix of debt/equity from the promoter company and the working capital requirements will be largely met by the sanctioned working capital limits. The company has sanctioned working capital limits to overcome any liquidity event, which, along with expectation of enhanced promoter support in a scenario of liquidity mismatches and moratorium on repayments in the near term, is expected to keep the liquidity profile adequate.

Rating sensitivities

Positive factors – The ratings can be upgraded if the planned projects get commissioned and subsequently stabilise within the timelines and budget and generate healthy cash accruals. An improvement in the credit profile of the parent group could also lead to an upgrade.

Negative factors – Any material time and cost overruns in the project, and/or inability of the company to fully operationalise the plant in a timely manner may trigger a downgrade. Also, weaker-than-expected revenue and profitability, having an adverse impact on the company's overall leverage and coverage metrics, would weigh on the rating. Weakening of the linkages with the parent group and/or weakening of the credit profile of the parent may also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Group company: Deepak Nitrite Limited The ratings consider the likelihood of the parent, DNL, extending support to DCTL, should the need arise. The analysts have followed a parent-support uplift approach while rating DCTL's bank lines with DNL as the parent. DCTL is a wholly-owned subsidiary of DNL
Consolidation/Standalone	Standalone

About the company

Deepak Chem Tech Limited (DCTL), formerly known as Deepak Clean Tech Limited, was incorporated on October 9, 2020 and is a wholly-owned subsidiary of Deepak Nitrite Limited (DNL). The company manufactures various basic and fine specialty chemicals. Some chemical products the company intends to manufacture include benzo tri chloride (BTC), benzo tri fluoride (BTF), concentrated nitric acid (CNA), weak nitric acid (WNA), methyl isobutyl ketone (MIBK), methyl isobutyl carbinol (MIBC), specialty chemicals, ortho toluidine (OT) and meta aminobenzotrifluoride (MABTF). The proposed chemicals shall be sold in the open market as well as to Group companies.

Key financial indicators (audited): DCTL – NA, as it is a project company

DNL Consolidated	FY2022	FY2023	FY2024
Operating income	6821.3	7992.1	7681.8
PAT	1066.6	852.0	810.9
OPBDIT/OI	23.8%	16.4%	14.6%
PAT/OI	15.6%	10.7%	10.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.25	0.26
Total debt/OPBDIT (times)	0.2	0.04	0.19
Interest coverage (times)	44.7	49.2	95.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 09, 2024	Mar 11, 2024	-	-
1	**Term loans**	Long-term	1,202.00	**[ICRA]A (Stable)**	-	-	-
2	**Fund based/ Non-fund based limits**	Long-term/ Short-term	200.00	**[ICRA]A (Stable)/ [ICRA]A2+**	**[ICRA]A (Stable)/ [ICRA]A2+**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term loans	Simple
Long-term/Short-term - Fund-based/non-fund based limits	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 loans**	March 2024	NA	March 2036	1,202.00	[ICRA]A (Stable)
NA	**Long term/ Short term fund-based/ Non-fund based limits**	NA	NA	NA	200.00	[ICRA]A (Stable)/[CRA]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 - NA

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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.

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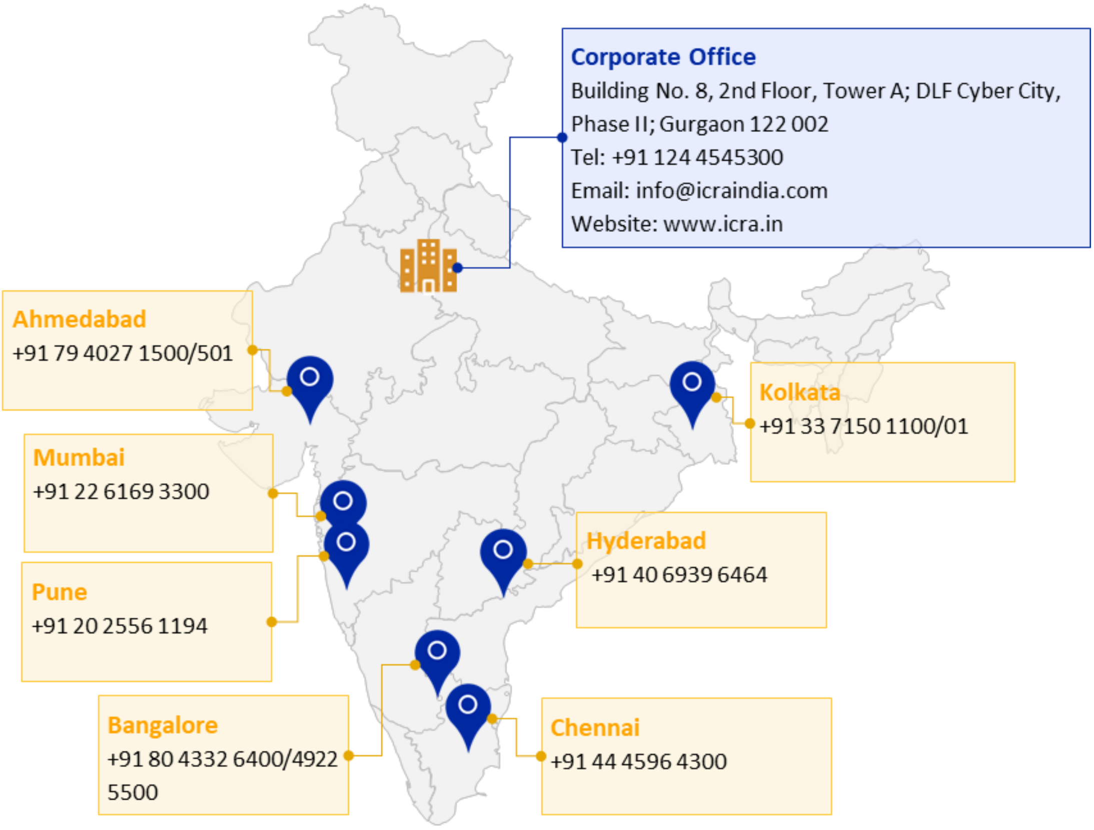

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