August 23, 2024

Ultramarine and Pigments Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	1.00	1.00	[ICRA]A+(Stable); reaffirmed
Short-term – Non-fund based facilities	11.32	0.00	-
Short-term – Fund-based limits	7.00	5.00	[ICRA]A1+; reaffirmed
Long-term – Fund-based - Term loan	48.17	26.73	[ICRA]A+(Stable); reaffirmed
Total	**67.49**	**32.73**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into consideration Ultramarine and Pigments Ltd's (UPL) established track record as a manufacturer of ultramarine blue pigments and surfactants. Further, the company has long-standing relationships with its customers. The ratings also factor in a healthy financial risk profile with stable revenues in FY2024. The capital structure remains comfortable with low debt levels and comfortable coverage indicators.

The ratings, however, are constrained by product concentration risk in the pigment segment as the company manufactures majorly a single product– ultramarine blue. While the company is making efforts to develop new products, a successful induction and market development of such products for a meaningful diversification of the revenue stream remains to be seen.

The company's profitability is exposed to the fluctuation in raw material prices. The operating profitability has been moderating in the last few years owing to high raw material prices and increased revenue contribution from surfactants, which are low-margin products. The profitability is further exposed to forex risks because of the significant exports. However, the impact is minimised to an extent by natural hedging as a part of the raw material is imported.

The Stable outlook on the rating reflects ICRA's expectation that UPL is likely to sustain its operating metrics with its strong market position and experience in pigment manufacturing. Further, the outlook underlines ICRA's expectation that the entity's incremental capex for capacity expansion will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Extensive experience and presence in ultramarine blue pigment industry – UPL commenced operations in 1961 and is one of the largest manufacturers of ultramarine blue pigments in India. Ultramarine blue pigment has diverse application with high-grade pigments used in industries such as plastics, paints, coatings, cosmetics, food, detergents, etc. The lower grade pigments are primarily used for whitewashing and laundry applications. The pigment segment has limited geographical and customer concentration risks due to its significant presence in the export market and an established customer base in the domestic market.

Established presence and long-standing customer relationship in surfactant industry - UPL is among the key suppliers of surfactants to detergent manufacturers, including some of the large multinational FMCG players, in South India. The company has been catering to these large FMCG participants over the years and its established relationship has aided in maintaining a steady growth in revenues in this segment.

Healthy financial risk profile - The operating income was stable at Rs. 560.7 crore in FY2024 owing to the lower realisations across products, though the volumes were higher year on year. The capital structure is comfortable, characterised by gearing of 0.1 times as on March 31, 2024 owing to a healthy net worth position and relatively low reliance on external debt. The coverage indicators remain comfortable, reflected in an interest coverage of 13.1 times in FY2024 owing to the low interest expense and healthy operating profits.

Credit challenges

High product concentration in pigment segment - UPL's operation in the pigment segment is characterised by low product diversification and competition from global players. Its revenue from this segment is primarily dependent on ultramarine blue pigments with limited revenue from other pigments. While the company is making efforts to develop new products, a successful induction and market development of such products for a meaningful diversification of the revenue stream remains to be seen. The low value addition in the surfactant segment and intense competition restricts the company's pricing flexibility. The end-user product for the segment – detergents – is a consumer commodity with low demand growth. Hence, its scope for improving the scale of operations and profitability remains limited, despite the increasing preference of its products.

Vulnerability of profitability to adverse fluctuation in raw material prices and forex – The company's profitability is exposed to the fluctuation in raw material prices. This is reflected in the moderation in operating profitability over the last few years owing to high raw material prices and increased revenue contribution from surfactants, which are low-margin products. The operating margins declined to 17-18% in the last three years (FY2022 to FY2024) from 23-25% (FY2019 to FY2021). The profitability is further exposed to forex risks as the company exports its products to the US, Korea and the European market. However, the impact is minimised to an extent by natural hedging as a part of the raw material is imported from the US.

Environmental and social risks

Given the safety and environmental health-related concerns associated with chemicals, the industry is exposed to the risk of tightening regulatory norms for the production, handling, disposal, and transportation of chemical products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While UPL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its rating.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health, and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. UPL hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Strong

UPL's liquidity position is expected to be strong with healthy cash flow from operations, strong cash and bank balances and liquid investments of Rs. 44.48 crore as on March 31, 2024. UPL has debt repayment obligations of Rs. 14.25 crore in FY2025 and ~Rs. 14 crore in FY2026 which the company is expected to comfortably meet from its operational cash flows. Further, over the next two years, the company plans to expand its capacities with a mix of internal accruals and debt funding.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if the company demonstrates a significant improvement in its scale and profitability indicators while maintaining a comfortable capital structure, and healthy coverage indicators and liquidity position.

Negative factors – Pressure on the ratings could emerge if there is a sustained decline in revenue and profitability, or a stretch in the working capital cycle, which along with the large debt-funded capex/investments, would weaken the credit profile. Specific credit metrics for downgrade include TD/OPBDITA of more than 1.8 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	For arriving at the ratings, ICRA has considered the consolidated financials of UPL. The details of the consolidation are provided in Annexure II

About the company

Ultramarine & Pigments, established in 1960, has its manufacturing facilities at Ambattur (Chennai), Ranipet (North Arcot, Tamil Nadu) and Naidupeta, Andhra Pradesh. It is one of the major manufacturers of ultramarine blue pigments and surfactants in India. The company also manufactures detergent powder/liquid (under the brand name OOB) and other inorganic pigments in a smaller scale. Besides, it has an ITeS/BPO division with specialisation in content management, publishing, hospital billing services, etc. UPL also earns a small revenue from its windmill division. It has a capacity 7,500 MTPA in the pigment segment and 62,000 MTPA in the surfactant segment. The company incorporated a wholly-owned subsidiary, Ultramarine Speciality Chemicals Limited, in December 2019 to expand its pigment production. The production facility commenced operations in August 2022.

Key financial indicators (audited)

UPL Consolidated	FY2023	FY2024	Q1FY2025
Operating income	556.6	560.7	160.5
PAT	69.2	57.6	16.5
OPBDIT/OI	18.3%	16.9%	16.50%
PAT/OI	12.4%	10.3%	10.30%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	-
Total debt/OPBDIT (times)	0.7	0.8	-
Interest coverage (times)	20.1	13.1	15.6

*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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs Crore)	Aug 23, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based	Long Term	1.00	[ICRA]A+ (Stable)	12-May-23	[ICRA]A+ (Stable)	29-Apr-22	[ICRA]A+ (Stable)	-	-
Non-fund based	Short Term	0.00	-	12-May-23	[ICRA]A1+	29-Apr-22	[ICRA]A1+	-	-
Unallocated	Long Term	0.00	-	12-May-23	-	29-Apr-22	[ICRA]A+ (Stable)	-	-
Term loans	Long Term	26.73	[ICRA]A+ (Stable)	12-May-23	[ICRA]A+ (Stable)	29-Apr-22	-	-	-
Fund-based	Short Term	5.00	[ICRA]A1+	12-May-23	[ICRA]A1+	29-Apr-22	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based working capital facilities	Simple
Short term fund based limits	Very 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	**Short term fund-based working capital facilities**	NA	NA	NA	5.00	[ICRA]A1+
NA	**Term loans**	Dec 2019	8.4%	June 2028	26.73	[ICRA]A+(Stable)
NA	**Long term – Fund-based working capital facilities**	NA	NA	NA	1.00	[ICRA]A+(Stable)

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	UPL Ownership	Consolidation Approach
Ultramarine Specialty Chemicals Limited	100.00%	Full Consolidation

Source: UPL annual report FY2024
Note: ICRA has taken a consolidated view of the parent (UPL) and its subsidiaries while assigning the ratings.

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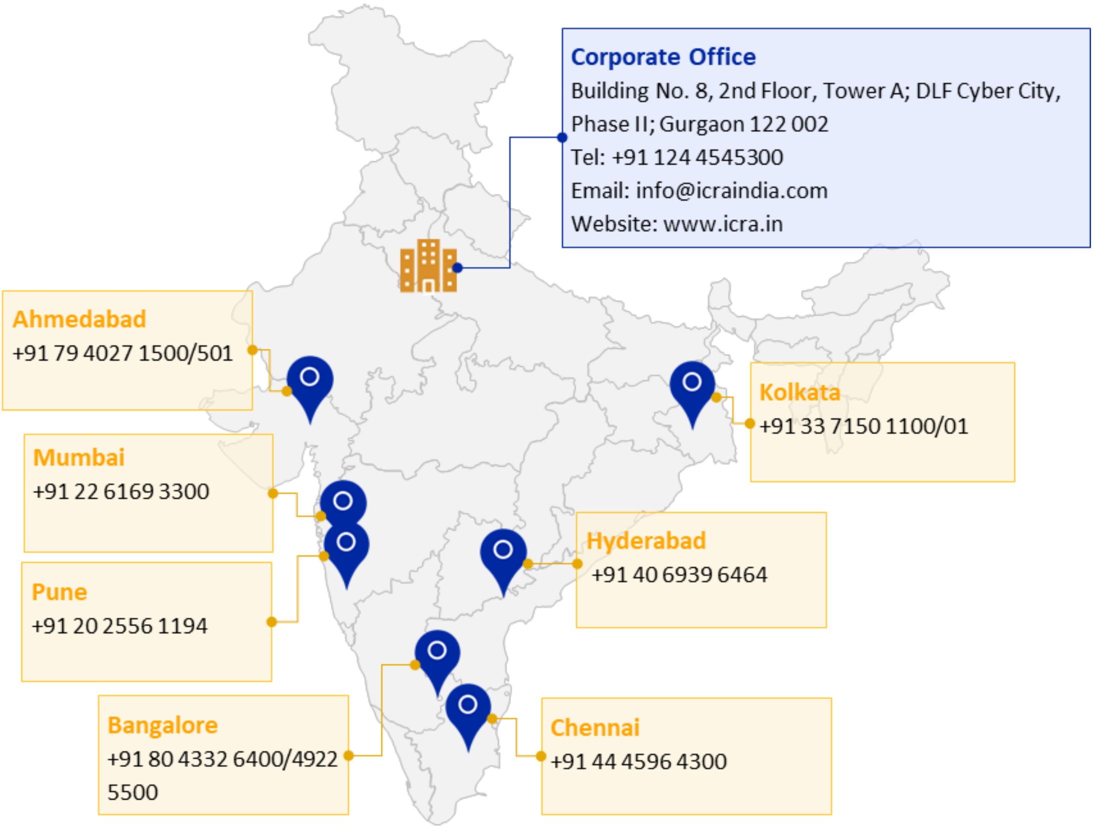

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