December 31, 2024

Ganesh Polychem Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term– Fund-based	45.00	45.00	[ICRA]A+ (Stable); reaffirmed
Short term- Non fund-based	6.60	6.60	[ICRA]A1; reaffirmed
Fund-based interchangeable limits^	(25.00)	(25.00)	[ICRA]A1; reaffirmed
Total	**51.60**	**51.60**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the strong credit profile of Ganesh Polychem Limited (GPL), marked by consistently healthy profit margins, low debt levels and robust debt protection metrics, reflected in debt/OPBDITA of 0.35 times and interest coverage of more than 67.14 times for FY2024. The credit metrics are expected to remain strong, going forward, despite the likely moderation in the sales volumes and profitability to some extent in the near term, amid the ongoing capex to expand the capacities and upgrade the manufacturing process.

GPL's revenue growth declined by 14% in FY2024 on the back of lower realisations and flattish volumes. While the volume growth is expected to stay muted in FY2025 as well, the cash flow from operations is likely to remain healthy. ICRA also takes into consideration GPL's leading position as a manufacturer of di-chloro diphenyl dullfone (DCDPS), which is a complex polymer intermediate, and its contract with the BASF Group for the product. ICRA continues to consider the lengthy approval process for supplying organic intermediates to end-user industries like aerospace and hybrid cars, which act as an entry barrier for new competitors, benefiting an established player like GPL. ICRA also notes the parentage of Aarti Pharmalabs Limited (APL), which will be willing to extend any financial support to GPL, if need arises.

The ratings, however, are constrained by GPL's modest scale of operations, the moderately high working capital intensity of operations, high customer concentration risks with large reliance on a single client and limited product diversification as the top four products drive 75% of its revenues. Further, being present in the chemical industry and dealing with hazardous products, GPL remains vulnerable to increased regulatory scrutiny from pollution control norms. Moreover, the volumes remain vulnerable to the ongoing tepid demand scenario in the global markets as majority of the revenue is derived from exports and the company's revenue growth may decline in the current fiscal.

The Stable outlook on the long-term rating reflects ICRA's opinion that GPL will continue to maintain a steady credit profile by generating healthy cash flows, benefiting from the respective expertise of its joint venture partners, its established relationship with reputed customers and a strong product profile.

Key rating drivers and their description

Credit strengths

Benefits of parentage of Aarti Pharmalabs Limited – ICRA notes the parentage of APL, which will be willing to extend financial support to GPL, if the need arises. Moreover, APL's credit profile remains strong, driven by a consistent growth in operating income, healthy operating margins and comfortable coverage metrics.

Healthy profit margins, backed by higher share of revenue from complex polymer intermediates - GPL's operating profit margins have remained healthy due to the high value-accretive product profile of complex polymer intermediates and a strong market position. The operating profit margins expanded in FY2024 due to a change in the pricing formula, wherein a few more raw materials like coal and sulphur were included in the formula pricing and the company was able to benefit from this. Moreover, the company typically has formula-based pricing with its customers with a quarterly lag for around 70% of the total sales. Going forward, while the profit margins may witness some moderation, these are expected to remain healthy.

Conservative capital structure and robust coverage indicators - The company's capital structure has remained conservative due to its limited reliance on external borrowings coupled with a strong tangible net worth base. The total debt had increased to Rs. 26.61 crore as on March 31, 2024, from Rs. 15.25 crore as on March 31, 2023, with the increase in working capital borrowings. With the increase in borrowings, the gearing moderated to 0.09 times as on March 31, 2024, from 0.06 times as on March 31, 2023, but is expected to continue to be healthy. The interest coverage remained healthy at 67.14 times in FY2024 due to healthy profits and low interest and finance expenses. While the company has some capex plans, going forward, they are likely to be funded through accruals, thereby keeping the capital structure and coverage metrics comfortable.

Strong entry barriers and GPL's established presence in the market - Complex polymers find application in engineering plastic, which further finds application in the aerospace and automobile industries. As any change in the formulation can adversely impact the performance of the product, the approval process to supply these polymers is lengthy, acting as an entry barrier for other manufacturers. The company's established market presence in the global polymer intermediate business acts as an entry barrier for other players.

Credit challenges

Moderately high working capital-intensive operations - The working capital intensity, reflected in the net working capital intensity/operating income (NWC/OI), has remained moderately high for the company due to its elevated debtor and inventory levels. It increased in FY2024 to 22% from 15% in FY2023. The debtor days increased to 65 days in FY2024 from 41 days in FY2023 and the inventory days have increased to 39 days in FY2024 from 28 days in FY2023.

High customer concentration risk - GPL derives 55% of its revenues from the BASF Group, leading to high customer concentration risk. However, its association with the Group as one of its preferred suppliers over the years mitigates this risk to an extent.

Concentrated product portfolio - GPL's product profile has remained concentrated with its top four products accounting for more than ~75% of its revenues. Although the share of its top four products has reduced over the last two years due to the trading of other products and sale of steam from the co-generation plant, these products remain GPL's key revenue drivers. The company's strong presence in the domestic and global markets provides comfort.

Liquidity position: Adequate

The liquidity position of the company is adequate with healthy cash accruals and no significant term loan repayments over the medium term. GPL had no term loan on its books as on March 31, 2024. The company's reliance on working capital borrowings has remained limited in the last 12 months. While the company is undertaking a capex of Rs. 75 crore in the current fiscal, it is likely to be funded through internal accruals and the available cash balances, and thus the liquidity will continue to be comfortable amid a healthy cash flow.

Rating sensitivities

Positive factors – A material rise in revenues and a sustained improvement in working capital intensity will support an upgrade. The ratings may also be upgraded if APL's healthy credit profile sustains/improves.

Negative factors – Pressure on GPL's ratings could arise if there is a substantial decline in revenues and operating margins. Moreover, any deterioration in the credit profile of APL, or weakening of linkages and financial support from APL, can exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Parent Company – Aarti Pharmalabs Limited. The ratings assigned to GPL factor in the willingness of APL to extend financial support to the company, as demonstrated in the past. ICRA believes that APL will continue to extend financial support to GPL, as and when the need arises
Consolidation/Standalone	Standalone

About the company

GPL is a joint venture between AIL and the Bandodkar (BanChem) Group. AIL provides financial and operational support, while the Bandodkar Group provides technical expertise in developing complex polymer intermediates. In March 2016, AIL increased its ownership to 50.24% from 50%, thus gaining a controlling stake. In March 2021, AIL reduced its stake to 50% after the conversion of compulsory convertible debentures (CCDs) issued to the Bandodkar Group into equity and GPL ceased to be a subsidiary of AIL. The NCLT approved the demerger of Aarti Industries into two companies — Aarti Industries and Aarti Pharmalabs Limited. Some portions of the investments have also been transferred to Aarti Pharma and the investment in Ganesh Polychem Limited will be a part of such transfer. GPL has two plants, one at Vapi (Gujarat) and the other at Dombivali (Maharashtra). The company is one of India's largest manufacturers of DCDP, which is a complex polymer intermediate used in the aerospace industry, aircraft and hybrid car segments. GPL also produces di-amino di-phenyl sulfone (DADPS), di-methyl aniline (DMA) and di-methyl sulphate (DMS).

Key financial indicators (audited)

	FY2023	FY2024	H1FY2025
Operating income	392.65	338.77	153.49
PAT	37.95	48.00	25.18
OPBDIT/OI	15.75%	22.54%	23.96%
PAT/OI	9.66%	14.17%	16.40%
Total outside liabilities/Tangible net worth (times)	0.20	0.26	-
Total debt/OPBDIT (times)	0.25	0.35	0.00
Interest coverage (times)	55.40	67.14	74.78

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025) Type	Amount rated (Rs. crore)	Date & rating in FY2025 Dec 31, 2024	Chronology of rating history for the past 3 years: Date & rating In FY2024 Sep 01, 2023	Date & rating in FY2023 Sept 13, 2022	Date & rating in FY2022 Jul 26, 2021
1	**Cash credit**	Long term	45.00	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	**Term loan**	Long term	0.00	**-**	-	-	[ICRA]AA- (Stable)
3	**Letter of credit**	Short term	3.00	**[ICRA]A1**	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
4	**Bank guarantee**	Short term	3.00	**[ICRA]A1**	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
5	**Packing credit/Post-shipment credit***	Short term	(25.00)	**[ICRA]A1**	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
6	**Forward contracts**	Short term	0.60	**[ICRA]A1**	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Letter of credit	Very Simple
Bank guarantee	Very Simple
Packing credit/Post-shipment credit	Simple
Forward contracts	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	Cash credit	-	-	-	45.00	[ICRA]A+ (Stable)
NA	Letter of credit	-	-	-	3.00	[ICRA]A1
NA	Bank guarantee	-	-	-	3.00	[ICRA]A1
NA	Packing credit/ post-shipment credit *	-	-	-	(25.00)	[ICRA]A1
NA	Forward contract	-	-	-	0.60	[ICRA]A1

*Source: Company; *Sublimit of cash credit*

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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