

February 28, 2025

Elkay Chemicals Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based – Overdraft facilities	12.50	12.50	[ICRA]BBB+ (Stable); reaffirmed
Long term – Fund-based – EPC/ PCFC**	(5.00)	(5.00)	[ICRA]BBB+ (Stable); reaffirmed
Short term - Non-fund based – LC	6.50	6.50	[ICRA]A2; reaffirmed
Short term - Non-fund based – LC**	(5.00)	-	-
Short term - Non-fund based/BG***	(0.25)	(0.25)	[ICRA]A2; reaffirmed
Total	19.00	19.00	

*Instrument details are provided in Annexure I; **sublimit of OD; ***sublimit of LC

Rationale

The reaffirmation of the ratings continues to take into consideration the professionally qualified and experienced promoters of Elkay Chemicals Private Limited (ECPL or the company) with a track record of over three decades in manufacturing silicone-based products. The ratings also take into account ECPL's diversified product portfolio catering to various industries, which provides cushion against industry-specific risks. Moreover, the customer base remains diversified with established relationships with key customers ensuring revenue visibility for the company.

The company reported an annual volume growth of ~18% in FY2024. The volumes have continued to grow in the current fiscal as well. However, the realisations were impacted by global oversupply and tepid demand conditions in international markets. There was a significant moderation in the profit margins as contributions contracted amid a mismatch in the demand-supply scenario and inventory losses due to the decline in prices. However, the profit margins are expected to improve now as the prices are likely to rise to some extent. ECPL continued to exhibit a comfortable capital structure and strong coverage indicators in FY2024, reflected in a gearing of 0.12 times and interest coverage of 12.14 times for the fiscal. These indicators are likely to moderate because of the support extended for a capex in its US-based wholly-owned subsidiary. Further, the project remains exposed to execution and marketing risks.

The ratings, however, continue to be constrained by ECPL's moderate scale of operations and the limited bargaining power with its key suppliers as most of them are reputed players with a monopoly in the global silicone market. At present, ECPL derives a sizeable portion of its sales from exports with some dependence on Europe. However, the domestic market is doing well and the new customers in West Asia, South Africa, Russia, Turkey, Kazakhstan, etc. will contribute to ECPL's growth.

ICRA notes that the profitability remains susceptible to the volatility in raw material prices, while its realisations are linked to the global demand-supply scenario. Further, ECPL's profitability remains inherently exposed to currency risks because of its sizeable exports, although the significant amount of imports provides a natural hedge to an extent. Moreover, being in the chemical industry, the company remains exposed to environmental risks.

ICRA also notes the company is setting up greenfield facility in its US subsidiary which is likely to entail a capex of \$17-18 million and is proposed to be funded by a debt of \$5 million and the balance by interest-free advances from a customer and equity

support from ECPL. This is likely to put some pressure on the company's cash flows in the near term. However, the cash flows will be comfortable once this facility commissions.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that ECPL will continue to maintain its business position, given its established relationships with key clients from diverse industries to generate steady cash flow and maintain a comfortable credit profile.

Key rating drivers and their description

Credit strengths

Qualified and experienced promoters with established track record in manufacturing silicone-based products - The key promoters of the company, Dr. R.D. Kulkarni and Mr. A.K. Lokapur, are professionally qualified technocrats, with more than three decades of experience in silicone-based product manufacturing. ECPL commenced operations in 1986, which helped the company acquire and retain customers.

Diversified product portfolio catering to different industries; established and diversified customer base - ECPL manufactures a broad array of products that are customised to meet the diverse requirements of its customers across industries such as agriculture, construction, petrochemicals, personal care, textile, pharmaceuticals and rubber. The diverse portfolio lowers the business risk and the risk of product obsolescence or commoditisation in any specific product line. The wide range of products caters to multiple requirements of any customer, strengthening the customer-wise market share for the company. In FY2024, the company derived ~32% of its revenues from new customers acquired in the last two years. While exports earlier contributed 65-70% to the revenues, their share decreased to 50-55% in the current fiscal.

Going forward, while Europe is likely to face demand-side pressures, the company has been diversifying its presence across West Asia, South Africa, Russia, Turkey Kazakhstan. The geographical diversification reduces its vulnerability to the variability in demand in a single region, or demand disruptions caused by force majeure events or adverse regulatory actions in a single geography.

Healthy financial risk profile; moderation likely with planned overseas capex - The profit margins had declined as contributions contracted amid a mismatch in the demand supply scenario and decrease in realisations. The margin for specialty chemicals is 12-16% and for commodity chemicals 8-10%. The profitability was affected by inventory losses in FY2023 and Q1 FY2024, but the losses have been absorbed now. The company reported a PBT of Rs. 13.76 crore in 9M FY2025. However, with minimal long-term debt, Elkay continues to show comfortable capital structure and debt protection metrics at both the standalone and consolidated levels.

The company's working capital intensity has remained low, reflected in a net working capital intensity/operating income of less than 25% in the last five years. The interest coverage stood at 9.31 times and the total debt/operating profit was 0.88 times in FY2024. These indicators are likely to witness some moderation owing to the support that is expected to flow from this entity for a capex in its US-based wholly-owned subsidiary.

Growing demand for silicone in various end-user industries to drive industry growth - The growing demand for silicone in various end-user industries, such as personal care, consumer goods, industrial processes and construction, is expected to drive industry growth over the forecast period. Further, in the domestic market, the growth prospects remain healthy with elevated demand from refineries, consumer goods and personal care.

Credit challenges

Moderate scale of operations - ECPL continues to operate on a moderate scale of operations with a consolidated revenue base of Rs. 234.91 crore in FY2024. The company reported ~18% annual volume growth in FY2024. However, the prices started softening due to lower demand from Europe and the sales realisation declined, thus reducing its operating income. Elkay (standalone) reported revenues of Rs. 208.20 crore in FY2024 and Rs. ~169.27 crore in 9MFY2025. The volumes have continued

to grow in the current fiscal as well. The domestic market is doing well and the new customers in West Asia, South Africa, Russia, Turkey, Kazakhstan will contribute to Elkay's growth.

Susceptibility of profitability to volatility in raw material prices - Raw materials account for about 58% of the company's operating costs. Silicone monomer is the major raw material used by the company and has exhibited high volatility in the recent past. The profitability of the company remains vulnerable to the fluctuations in raw material prices, given its limited ability to fully pass on the price variation to its end customers.

Limited bargaining power with large, reputed suppliers with monopoly in the silicone market - The major suppliers of silicone are multinational players on whom ECPL has moderate dependence for raw material procurement. ECPL has limited bargaining power with these players. However, the company's well-established relationships with several reputed suppliers of silicone monomers mitigate the risk to an extent.

Liquidity position: Adequate

At a consolidated level, the company had an external term loan of Rs. 3.15 crore on its books as on March 31, 2024. There is adequate buffer for contingencies with a working capital utilisation of 85-87%. The company had cash and liquid investments of ~Rs. 13.49 crore as on March 31, 2024 (standalone), although this is likely to be used to meet the capex requirements of the US entity. The company is planning to set up a manufacturing and storage facility in a subsidiary in the USA by FY2026 and Elkay will invest \$8-9 million which will be funded using internal accruals and unsecured loans from promoters.

Rating sensitivities

Positive factors – The ratings could be upgraded if the entity continues on its revenue growth trajectory and profitability on a sustained basis along with an improvement in its liquidity position.

Negative factors – The ratings could be downgraded if the entity shows a significant decline in OI and profitability on a sustained basis, or if there is any deterioration in the liquidity profile. Moreover, a material deterioration in the debt protection metrics can also result in a downgrade.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation The rating is based on the consolidated financials of Elkay Chemicals Private Limited (ECPL) and its subsidiaries, Silicone International Products (SIP) and Silken Material INC

About the company

Elkay Chemicals Private Limited (Elkay/the company) was set up in 1986 by Mr. Annarao K Lokapur and Mr. R D Kulkarni. It manufactures specialty chemicals from silicone, which are used in industries such as textiles, agriculture, construction, rubber and pharmaceuticals. The company has a facility at Bhosari in Maharashtra and is an exporter of silicone products & solutions. Elkay also has manufacturing facilities at Khopoli and Lote for manufacturing high-quality silicone fluids and emulsions. Elkay began exporting in 1998 and ships half of its annual output. It exports to 28 countries, including USA, Europe, Asia, Oceania and West Asia.

Elkay is also a partner in firms - Silicone International Products (96% profit sharing) and Elkay Speciality Products (2.5% profit sharing). SilKen Material INC is a wholly owned subsidiary of Elkay.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	292.61	234.91
PAT	22.47	16.68
OPBDIT/OI	6.26%	7.52%
PAT/OI	7.68%	7.10%
Total outside liabilities/Tangible net worth (times)	0.37	0.46
Total debt/OPBDIT (times)	0.83	0.88
Interest coverage (times)	10.15	9.31

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

Current (FY2025)				Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	Feb 28, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based - Overdraft facilities	Long term	12.50	[ICRA]BBB+ (Stable)	Dec 22, 2023	[ICRA]BBB+ (Stable)	Nov 24, 2022	[ICRA]BBB+ (Stable)	Dec 21, 2021	[ICRA]BBB (Stable)
Fund-based – EPC/PCFC	Long term	(5.00)	[ICRA]BBB+ (Stable)	Dec 22, 2023	[ICRA]BBB+ (Stable)	Nov 24, 2022	[ICRA]BBB+ (Stable)	-	-
Non-fund based limits	Short term	6.50	[ICRA]A2	Dec 22, 2023	[ICRA]A2	Nov 24, 2022	[ICRA]A2	Dec 21, 2021	[ICRA]A3+
Non-fund based – LC	Short term	-	-	Dec 22, 2023	[ICRA]A2	Nov 24, 2022	[ICRA]A2	-	-
Non-fund based/BG	Short term	(0.25)	[ICRA]A2	Dec 22, 2023	[ICRA]A2	Nov 24, 2022	[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term overdraft facilities	Simple
Fund-based –EPC/PCFC	Simple
Non-fund based limits	Very Simple
Non-fund based/BG	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	Long-term overdraft facilities	-	-	-	12.50	[ICRA]BBB+(Stable)
NA	Fund-based –EPC/PCFC	-	-	-	(5.00)	[ICRA]BBB+(Stable)
NA	Non-fund based limits	-	-	-	6.50	[ICRA]A2
NA	Non-fund based/BG	-	-	-	(0.25)	[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	Ownership	Consolidation approach
Silicone International Products	96%	Full consolidation
SiLKen Material INC	100%	Full consolidation

Source: Company

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