

March 28, 2025

Deepak Phenolics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loans	49.02	-	-
Long term - Fund based – Cash credit	680.00	729.02	[ICRA]AA(Positive) reaffirmed
Short term – Non-fund based - Interchangeable	(680.00)	(729.02)	[ICRA]A1+; reaffirmed
Total	729.02	729.02	

*Instrument details are provided in Annexure I

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of Deepak Nitrite Limited (DNL) and its wholly owned subsidiary company Deepak Phenolics Limited {DPL, rated [ICRA]AA (Positive)/[ICRA]A1+}, collectively referred to as the Deepak Group/the Group/the consolidated entity due to their managerial, operational and financial linkages.

The ratings continue to take into account the long operating track record of the company in the chemical industry, its diversified product profile and exposure to diversified end-user industries along with strong technical capabilities. ICRA notes that the company has a leading market position in most of its 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. The group's phenol operations have been contributing significantly to the group level cash flows and given the market leadership position in the country and recent debottlenecking of the phenol capacity, ICRA expects the phenol business to support the overall cash generation in the group. While the group is undertaking a sizeable capex in the near term which will result in the moderation in the credit profile, the same would continue to remain healthy.

The ratings are, however, constrained by the exposure of the company's profitability to the volatility in raw material prices, though the risk is lower for certain products because of formula-linked price contracts. The ratings will also be impacted by the vulnerability of DPL's profitability to volatile spreads, which in turn is linked to the volatility in the price of feedstock and finished products.

The ratings are also constrained by the sizeable capex plans the group is undertaking which exposes the group to project execution risks. The group is executing a modular capex under Deepak Chem Tech Limited (rated [ICRA]A (Stable)/A2+) wherein it has witnessed an increase in the capital outlay from Rs. 2016 crore earlier to Rs. 2400 crore owing to few changes in scope for the projects and minor cost over run. The projects have also been delayed by nearly 6 to 9 months from the earlier expected timelines. Additionally, the group has embarked on a Rs. 5000 crore capex for setting up a 165 KTPA polycarbonate (PC) resin plant in India. The plant and technology for the PC resin plant has been purchased from Trinseo Plc for a consideration of \$ 52.5 million and will involve relocating the plant from Stade, Germany to India. Additionally, the group may explore the possibility of setting up backward integration facilities for the polycarbonate resin plant, although the same is still at drawing board stage and ICRA will evaluate the impact on the credit metrics if and when these plans are finalised. Given the ongoing capex plans the group will remain exposed to project execution risk, although the group's track record of adopting new technologies, execution of sizeable Phenol project in the past and purchase of PC resin plant with already established technology provides comfort to some extent. Nevertheless, the timeliness of execution within the planned capital outlays will

remain a key monitorable. Additionally, the sizeable capex being undertaken will lead to moderation in the credit metrics for the consolidated entity from FY2026 to FY2028.

The Positive outlook continues to reflect ICRA's expectation that the group's cashflows will continue to remain robust driven by the healthy demand for the company's products, leadership position in several product categories and its integrated nature of operations.

Key rating drivers and their description

Credit strengths

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 toluene and fuel additives. DNL is among the top five global players in xylidines, cumidines, colour intermediates and oximes. DNL 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 has witnessed a significant improvement in scale and profitability. 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 Q3 FY2025, which will support incremental cash generation for DPL. The domestic demand for phenol and acetone far exceeds domestic production at present. Moreover, with limited domestic competition, DPL has been able to garner a significant market share in the Indian market.

Diversified product profile mitigates cyclical risk in different segments – While the company started with a limited portfolio of low-value bulk chemicals, it has grown its product portfolio to include high-value speciality chemicals for multiple end-user applications. At present, it has a product portfolio of over 100 products (including its derivatives). The company has also added pharma intermediaries and more agro-chemical products to its portfolio over the years. The regular introduction of new products has helped DNL mitigate the cyclical risk related to a particular product segment.

Strong operational profile characterised by multipurpose plants with integrated operations including strong performance in the phenol segment – The company's production facilities include processes that allow vertical integration for most products, leading to significant cost savings. Also, its facilities have the flexibility to change the product mix to suit the market requirements. DPL's phenol-acetone plant showed healthy capacity utilisation in FY2024 and 9M FY2025, resulting in steady revenue and cash flow generation for DNL on a consolidated basis. The phenol plant under DPL continues to maintain robust operational performance supported by strong demand and consistent debottlenecking of the plant which has resulted in the ability of the company to produce up to 3,50,000 MTPA of phenol. The plant performance remains robust with efficient operations.

Credit profile to remain healthy in the near term – DNL's consolidated credit profile has been characterised by low debt levels amid healthy cash generation from the AI and phenol segments. While going forward the group will be availing debt for execution of the ongoing capex program, the overall credit profile is expected to remain comfortable. Since majority of the capex will be completed by FY2028 end, the credit profile is expected to start improving from FY2029 as the ongoing capex starts yielding cash flows.

Credit challenges

Profitability exposed to volatility in raw material prices; formula-linked price contracts mitigate risk in some segments – The prices of a few key products are linked to the movement in crude oil prices. The change in the price levels, however, varies across product categories and is not commensurate with the change in crude price due to formula-linked pricing. Also, the prices of certain key products, such as sodium nitrite, trifluoromethyl acetophenone (TFMAP), optical brightening agents (OBA) and DASDA are delinked from the movement in crude oil prices. In the phenolics segment, the prices of phenol and acetone

are cyclical and volatile, and the profitability of the project is exposed to the movement in spreads between the final products and the feedstock. The movements in the spread are partly governed by crude oil prices and partly by the global demand-supply balance of phenol and acetone.

Group faces project execution risk as ongoing projects vis-à-vis current size of the group – The company plans to undertake sizable capex over the course of FY2026 to FY2028, which will expose the company to project execution risks and will lead to the moderation in the credit metrics. With the sizeable capex being executed in a short span of time and most of it being lumpy in nature will lead to moderation in the credit metrics through to FY2028. However, once the projects are commissioned the overall credit profile will witness improvement from FY2029 onwards. The timeliness of execution of the capex and within the capital outlay will remain key monitorable. However, the group's track record of adopting new technologies, execution of sizeable Phenol project in past and purchase of PC resin plant with already established technology provides comfort to some extent.

Environmental and Social considerations

Environmental considerations: Chemical companies, including specialty and commodity chemical producers, face environmental risks from their exposure to waste, pollution, and toxicity. DNL (consolidated) is exposed to the risks of tightening regulations on environment and safety. As per the disclosures made by the consolidated entity, its operating units comply with all the environmental regulations and various statutory approvals/permits granted by the authorities. Also, there were no pending show cause/legal notices from the CPCB/SPCB at the end of 2023-2024. This indicates that the consolidated entity has mitigated the regulatory risks with its sound operational track record and regulatory compliance. Nonetheless, the consolidated entity remains exposed to the longer term risk of the ongoing shift towards a future that is less dependent on fossil fuels. The consolidated entity's ability to adapt its business model, including diversification into new segments, would be a key rating driver from a long-term credit perspective.

Social considerations: The key social risks for chemical companies are demographics, safety management, and the growing influence of consumer behaviour. Chemical companies face demographic changes from rising population, urbanisation, and greater economic development in many parts of the world. However, for emerging markets like India, such change in consumer behaviour or any other driver of change is expected to be relatively slow paced. Therefore, at present, while the consolidated entity remains exposed to the mentioned social risk, it does not materially affect its credit profile. Further, social perception of chemical products and consumer preferences could pose important long-term risks to the consolidated entity.

Liquidity position: Strong

The Group's free cash balance and liquid investments were at ~Rs. 776 crore as on December 31, 2024. DNL also has a sanctioned working capital facility of Rs. 490 crores as on December 31, 2024, at a standalone level, the average utilisation has remained only 3% (fund-based limits) in the past 12 months ending December 2024 end. DPL also has a sanctioned interchangeable working capital limit of Rs. 580 crores as on December 31, 2024, the average utilisation of which was 2.3% in the form of non-fund-based limits over the past 12 months ending December 2024 end. The repayments for the term debt on books of the company will start in FY2027 for Rs. 1202 crore loan which is comfortable to be met vis-à-vis cash generation. ICRA expects the liquidity profile to remain strong supported by healthy cash generation and adequate funding tie up place for the execution for the near-term capex.

Rating sensitivities

Positive factors – The ratings may be upgraded in a scenario of timely commissioning of the ongoing capex plan without any material cost/time overruns along with healthy ramp up in the new capacities being commissioned leading to improvement in the leverage and coverage metrics. The ratings may also be upgraded in a scenario of material improvement in the retained cashflows of the company resulting in an improvement in the leverage and coverage metrics of the group on a consolidated basis.

Negative factors – The outlook may be revised to stable and/or the ratings may be downgraded if the company faces significant decline in its consolidated revenue and profitability on a sustained basis. Any material delay in the execution of the ongoing capex and/or material cost overruns resulting in sustained moderation in the credit profile of the group may lead to a rating downgrade. A specific credit metric for downgrade would be net debt/OPBITDA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemical
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Deepak Nitrite Limited (please refer to Annexure II for details of the entities consolidated)

About the company

DPL is a wholly-owned subsidiary of DNL. It was set up for a greenfield project at Dahej (Gujarat) to manufacture phenol and acetone. The project, with a base manufacturing capacity of 200,000 metric tonnes per annum (MTPA) of phenol and 120,000 MTPA of acetone, was commissioned on November 1, 2018. The project also includes a cumene manufacturing facility, which would meet the plant's entire cumene requirement. Further, with the brownfield expansion of IPA getting commissioned in December 2021, the total capacity of IPA was doubled to 60 KTPA.

Key financial indicators (Audited)

Standalone - DPL	FY2023	FY2024
Operating income	4,970.5	5,003.5
PAT	445.3	473.9
OPBDIT/OI	14.1%	13.8%
PAT/OI	9.0%	9.5%
Total outside liabilities/Tangible net worth (times)	0.34	0.23
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	29.1	65.1

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

Key financial indicators (Audited/Provisional)

Consolidated - DNL	FY2023	FY2024	9MFY25*
Operating income	7,992	7,713	6,102
PAT	852	811	495
OPBDIT/OI	16.4%	15.0%	12.7%
PAT/OI	10.7%	10.5%	8.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	-
Total debt/OPBDIT (times)	0.0	0.2	-
Interest coverage (times)	49.2	76.7	42.7

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

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Mar 28, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	-	-	-	-	11-Mar-2024	[ICRA]AA (Positive)	31-Mar-2023	[ICRA]AA (Positive)	25-Mar-2022	[ICRA]AA (Positive)
Cash credit	Long-term	729.02	[ICRA]AA (Positive)	-	-	11-Mar-2024	[ICRA]AA (Positive)	31-Mar-2023	[ICRA]AA (Positive)	25-Mar-2022	[ICRA]AA (Positive)
Non-fund based – Interchangeable	Short term	(729.02)	[ICRA]A1+	-	-	11-Mar-2024	[ICRA]A1+	31-Mar-2023	[ICRA]A1+	25-Mar-2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based – Cash credit	Simple
Short term – Non-fund based - Interchangeable	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	NA	NA	NA	729.02	[ICRA]AA (Positive)
NA	Non-fund based – Interchangeable	NA	NA	NA	(729.02)	[ICRA]A1+

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
Deepak Nitrite Limited	100.00%	Full Consolidation
Deepak Phenolics Limited	100.0% (rated entity)	Full Consolidation
Deepak Nitrite Corporation Inc., USA	100.0%	Full Consolidation
Deepak Chem Tech Limited	100.0%	Full Consolidation

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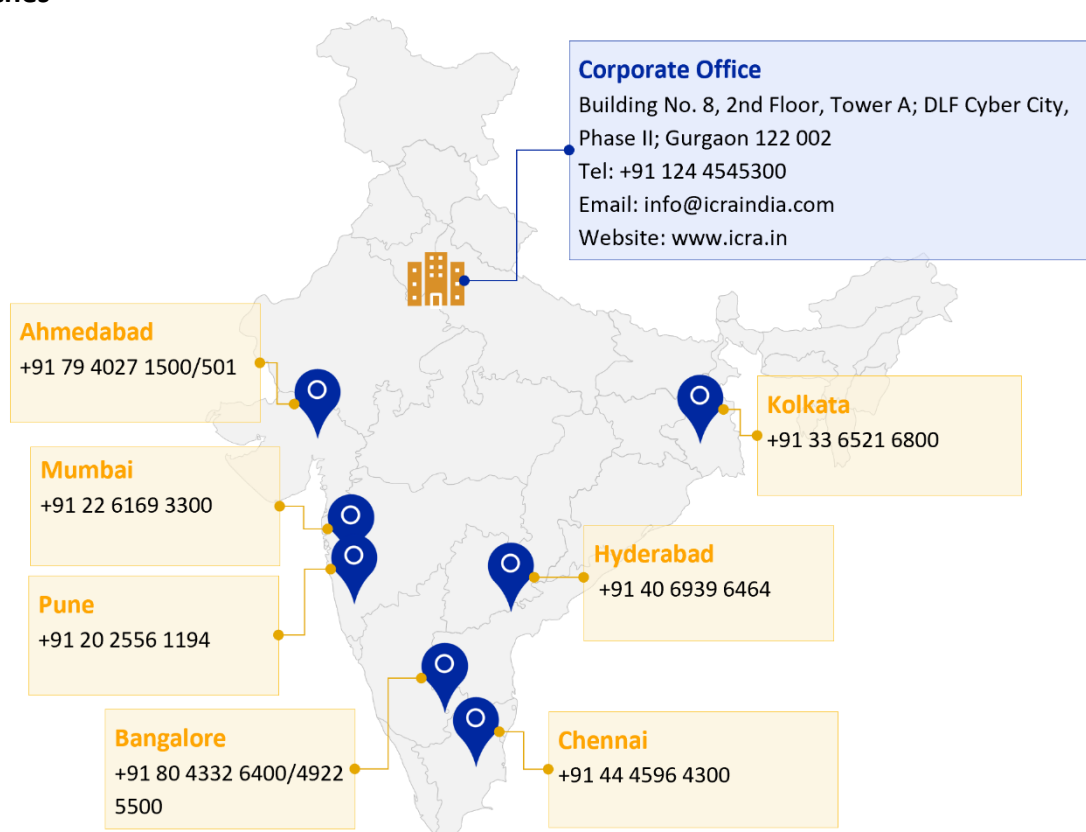
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