

April 07, 2025

Finorchem Limited (erstwhile Merchem 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 Loan	118.84	111.56	[ICRA]A(Stable); reaffirmed
Long Term/Short Term-Fund Based/Non Fund Based	180.00	180.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Long Term-Unallocated	2.50	9.78	[ICRA]A(Stable); reaffirmed
Total	301.34	301.34	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings continues to factor in the established presence of Finorchem Limited (erstwhile Merchem Limited, Finorchem) in the rubber chemicals industry. The ratings draw comfort from the strategic location of Unit 1 near Unit 2 in the Panoli chemical hub of Gujarat. This proximity, coupled with the company's established relationships with reputed automobile tyre manufacturers, has ensured repeat business over the years.

The company's capital structure was comfortable with the gearing at 0.5 times and TOL/TNW at 0.8 times as on March 31, 2024, due to a healthy net worth that was supported by stable accretion to reserves. The capital structure is likely to remain comfortable in the medium term. ICRA notes, in FY2024, Finorchem had completed the capex to launch new products. The capex was partly funded through debt. Following the capex completion, the company is yet to achieve a ramp-up in sales. Also, Finorchem is undertaking further capex to secure a critical raw material for one of its existing products which is likely to be completed by Q1 FY2026. This, too, is partly funded through debt. Consequently, the partly debt-funded capex, along with the high working capital borrowing, has moderated the leverage and coverage metrics in 11M FY2025. The coverage metrics are likely to remain moderate in the near term. The working capital borrowing increased in Q4 FY2025 due to higher inventory levels designated towards backward-integration capex. Nevertheless, the market acceptance of the new products and their subsequent scaling-up are likely to support the company's revenue growth along with the increase in its operating margins, thereby improving the coverage metrics in the medium term. The completion of the backward-integration capex is also likely to support the operating margins.

However, the ratings are constrained by the fact that Finorchem's Unit 2 is yet to achieve optimal capacity utilisation, although it is witnessing a gradual ramp-up in volumes. The company also faced pricing pressure that impacted the realisations in 11M FY2025 due to product dumping from international players. Further, rubber chemical manufacturing remains exposed to high sectoral concentration risks due to significant dependence on the tyre manufacturing industry. Besides, the company is likely to remain exposed to foreign exchange rate fluctuation risk as a major portion of its raw materials is imported. However, this forex risk is mitigated to an extent by a partial natural hedge and the quarterly revision of sale prices offered to its customers.

The Stable outlook on the long-term rating reflects ICRA's expectation that Finorchem is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the company's incremental capex will be funded in a manner to durably maintain its debt protection metrics that are commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established presence in rubber chemicals industry – The company is an established player within the speciality rubber chemicals industry. Finorchem has two operating chemical manufacturing units - Unit 1 (the rubber chemical manufacturing unit of ACL transferred to Finorchem after the scheme of arrangement w.e.f April 1, 2019) and Unit 2 (it was acquired in FY2019). Unit 1 has a healthy share in the domestic market for its product range, though its product portfolio remains limited compared to its larger peers. Unit 2 has an established track record in the speciality chemical industry, with a reputed brand name, primarily catering to the tyre industry, and has a larger product range as well as higher capacity than Unit 1. However, the clientele, mainly belonging to the tyre industry, is similar for both units.

Comfortable capital structure – The company's capital structure was comfortable with gearing at 0.5 times and TOL/TNW at 0.8 times as on March 31, 2024, due to a healthy net worth supported by stable accretion to reserves. The capital structure is likely to remain comfortable in medium term. However, the partly debt-funded capex, completed and being undertaken, along with the high working capital borrowing has moderated the leverage and coverage metrics in 11M FY2025. The coverage metrics are likely to remain moderate in the near term. Nevertheless, the market acceptance of the new products and their subsequent scaling-up are likely to support the company's revenue growth along with the increase in its operating margins, thereby improving the coverage metrics in the medium term. The completion of the backward-integration capex is also likely to support the operating margins.

Strategic location of plants – Finorchem's units are located at the chemical hub in Gujarat, with access to large cities such as Surat and Bharuch. Moreover, both units are in proximity to each other, which is likely to provide some operational advantages. Finorchem's other two plants of relatively smaller capacities are in Kerala and are non-operational at present.

Reputed customer base with established relationships reduces offtake risks – Finorchem's acceptable product quality has led to repeat businesses from its customers over the years. The entity has an established brand and its products have been approved by some of the prominent players in the tyre manufacturing industry, mitigating the offtake risks to an extent.

Credit challenges

Gradual ramp-up in Unit 2's volumes, however, yet to achieve optimal capacity utilisation – Finorchem's Unit 2 commenced commercial production in December 2020. Although the unit is witnessing a gradual ramp-up in volumes, it is yet to achieve optimal capacity utilisation. Going forward, further revenue growth will depend on Unit 2 achieving optimal capacity utilisation, market acceptance and ramp-up of sales of new products.

High sectoral concentration risk – The Group's clientele comprises major tyre manufacturing companies, exposing it to high sectoral concentration risks. Any slowdown in the domestic tyre industry will lead to a decline in the operating income.

Exposure to foreign exchange rate fluctuation risk – A major portion of the raw materials required for rubber chemical manufacturing is imported, and the company is likely to remain exposed to foreign exchange rate fluctuation risk. However, a partial natural hedge arising from some of the exports and the quarterly price-revision arrangement with customers mitigate the company's exposure to forex risks to some extent.

Liquidity position: Adequate

The liquidity position is adequate with a cushion in working capital limits. The average working capital utilisation was ~51% of the drawing power between March 2024 and February 2025, providing a cushion to the liquidity. The term loan repayment obligations are ~Rs. 27 crore in FY2026 and ~Rs. 28 crore in FY2027. The estimated cash flow from operations would be adequate to service the repayment obligations and meet the equity commitment towards capex.

Rating sensitivities

Positive factors – A significant improvement in revenue and profitability on a sustained basis, may lead to a rating upgrade. A specific credit metric for an upgrade includes debt to OPBDITA lower than 1.5 times on a sustained basis.

Negative factors – The ratings could be downgraded if there is any significant deterioration in revenues and profits, affecting the overall financial profile. Further, any large debt-funded capex/acquisition, resulting in increased leverage and pressure on its coverage metrics on a sustained basis, or a stretch in the working capital intensity impacting the liquidity profile of the entity may also exert pressure on ratings. Any weakening of linkages between Finorchem and its parent - Acme Chem Limited - or moderation in the credit profile of the parent could also exert a negative rating pressure.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Parent –Acme Chem Limited The ratings draw comfort from the likelihood of support from the parent company for the rated entity, should there be a need in future, given the reputation sensitivity and the strategic importance of the rated entity to the parent group; notwithstanding the above, the current rating opinion of ICRA on the rated entity does not factor any notch up due to parentage.
Consolidation/Standalone	The ratings are based on the standalone financials of Finorchem Limited

About the company

Finorchem Limited (erstwhile Merchem Limited), incorporated in 1994, was involved in the manufacturing of speciality rubber and a few other chemicals. However, the company discontinued its operations due to financial stress. In FY2019, Finorchem was acquired by Acme Chem Limited through the corporate insolvency resolution process (under the provisions of the Insolvency and Bankruptcy Code, 2016). Finorchem has plants at Eloor and Edayar in Kerala (9,120 MTPA) and Panoli in Gujarat (49,400 MTPA), with a total capacity of 58,520 MTPA. Finorchem's largest plant at Panoli was revamped and commenced operations in December 2020. In FY2024, the company completed capex to launch new products with additional increase in capacity by 31,000 MTPA to 58,520 MTPA. At present, the plant in Kerala is not operational.

Acme Chem Limited (ACL), incorporated in 1992, is promoted by Mr. Narain Holani. Prior to the scheme of arrangement, ACL manufactured a few select grades of speciality chemicals, which were used as critical inputs for rubber manufacturing in small proportions. It manufactured rubber chemicals like peptisers, antioxidants, pre-vulcanising inhibitors, accelerators and others, which were used in different stages of rubber processing. The company primarily catered to automobile tyre manufacturers. The chemical manufacturing plant is at Ankleshwar in the Bharuch district of Gujarat and has a total installed capacity of 10,800 metric tonnes per annum (MTPA).

After the National Company Law Tribunal's (NCLT) approval for the scheme of arrangement, ACL's rubber chemical manufacturing division was transferred to Finorchem. Moreover, ACL's subsidiaries, Lesha Commercial Private Limited and Adirish Properties Private Limited, have been amalgamated with ACL to eliminate cross-holding. The parent, ACL, along with the subsidiaries (other than Finorchem) and JVs, engages in investing activities and deals in real estate.

Key financial indicators (audited)

	FY2023	FY2024	9M FY2025*
Operating income	570.0	542.2	407.6
PAT	38.5	36.4	-
OPBDIT/OI	12.4%	11.8%	13.7%
PAT/OI	6.7%	6.7%	-
Total outside liabilities/Tangible net worth (times)	0.9	0.8	-
Total debt/OPBDIT (times)	1.8	2.2	-
Interest coverage (times)	6.3	6.7	-

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; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current (FY2026)		Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	111.56	7-Apr-2025	[ICRA]A (Stable)	-	-	20-OCT-2023	[ICRA]A(Stable)	12-OCT-2022	[ICRA]A(Positive)
			-	-	-	-	26-MAR-2024	[ICRA]A(Stable)	-	-
Fund based/non fund based	Long term/ Short term	180.00	7-Apr-2025	[ICRA]A (Stable)/[ICRA]A1	-	-	20-OCT-2023	[ICRA]A (Stable)/[ICRA]A1	12-OCT-2022	[ICRA]A (Positive)/[ICRA]A1
			-	-	-	-	26-MAR-2024	[ICRA]A (Stable)/[ICRA]A1	-	-
Long term-unallocated	Long term	9.78	7-Apr-2025	[ICRA]A (Stable)	-	-	26-MAR-2024	[ICRA]A(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Term loan	Simple
Fund Based/Non Fund Based	Simple
Unallocated limits	Not applicable

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 loan	Nov 2018	NA	June 2025	5.76	[ICRA]A(Stable)
NA	Term loan	Dec 2022	NA	Feb 2029	62.80	[ICRA]A(Stable)
NA	Term loan	June 2024	NA	Aug 2028	43.00	[ICRA]A(Stable)
NA	Fund/Non Fund-based Limits	NA	NA	NA	180.0	[ICRA]A(Stable)/[ICRA]A1
NA	Unallocated	NA	NA	NA	9.78	[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 – Not applicable

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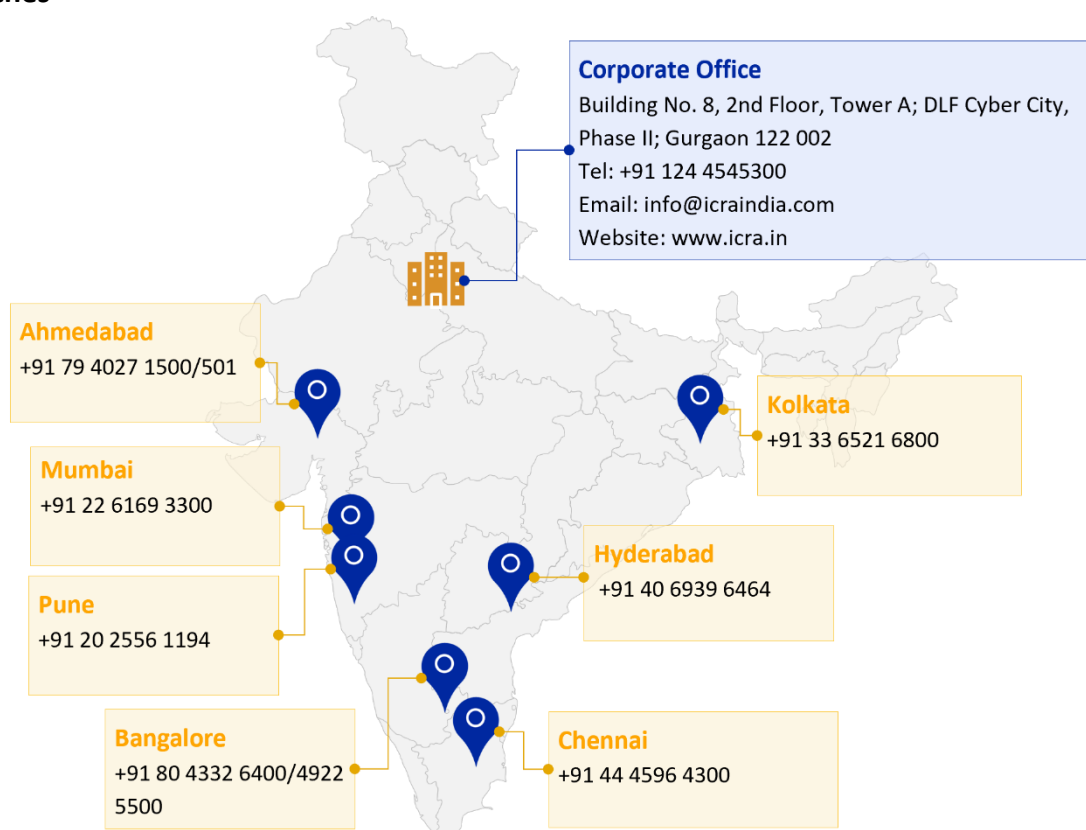
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