

Resil Chemicals Private Limited

February 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Cash Credit)	28.00	35.00	[ICRA]A- (Stable); revised from [ICRA]A (Stable)
Long Term – Term Loan	34.00	29.86	[ICRA]A- (Stable); revised from [ICRA]A (Stable)
Short Term - Fund Based	4.00	4.00	[ICRA]A2+; revised from [ICRA]A1
Short Term - Non-fund Based	5.40	5.40	[ICRA]A2+; revised from [ICRA]A1
Short Term – Interchangeable	(4.00)	(4.00)	[ICRA]A2+; revised from [ICRA]A1
Total	71.40	74.26	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings takes into account the weakening of coverage indicators due to decline in operating margins in H1 FY2019. The margins declined due to sharp rise in input material costs, which could not be completely passed on to its customers amidst intense competition. The ratings remain constrained by the company's modest scale of operations and high working capital intensity, restricting its operational flexibility. Further, RCPL remains exposed to the cyclical nature in the textile industry from which it derives about 75-80% of its revenues. Nevertheless, going forward, the company's focus on diversification of sales to other industries including personal care, automobiles, plastics, leather, rubber, etc. is expected to aid in reducing this dependence on the textiles industry to some extent.

The ratings, however, positively factor in the diversified product portfolio of the company and low customer concentration risk lending business stability for the company over the medium term. The ratings also take into account RCPL's meaningful market share in the Indian silicon-Textile Finishing Agents (TFA) market, its established relationship with its clients and continuous investment in new product development, which strengthens its position in the domestic market. The ratings are also supported by the healthy capital structure of the company.

Outlook: Stable

The 'Stable' outlook reflects ICRA's expectation that the company will continue to benefit from its established position in the market and its diversified product and customer base. The outlook may be revised to 'Positive' if there is substantial increase in the scale of operations aided by a sustained growth in market share for its products. The outlook may be revised to 'Negative' if there is any further weakening of the coverage indicators following any decline in operating margins or if the capital expenditure is higher than estimated leading to weakening of the liquidity position.

Key rating drivers

Credit strengths

Diversified product portfolio catering to varying requirements of the customers across industries - RCPL manufactures a broad range of products that are customised to meet the diverse requirements of its customers. For the textile segment, the company manufactures textile finishing agents (TFA), speciality chemicals, process enhancers, organics, enzymes and lubricants. In the non-textile segment, the company manufactures performance enhancers, anti-foam

agents, lubricants, car-care products (under brand name Vista), personal-care products, and other products catering to industries such as leather, rubber and plastics, construction, pharmaceutical, etc. The nano-technology division has also started contributing to the company's revenues and profits. The diverse product portfolio lowers business risk and the risk of product obsolescence or commoditisation in any specific product line.

Established relationship with a wide customer base of distributors and institutional customers - RCPL has a diversified customer portfolio consisting of distributors, textile manufacturers as well as chemical and dye manufacturers. In the non-textile segments, the customers also include leading FMCG brands and automobile OEMs. The diversified customer base has resulted in low customer-concentration risk as the top-five customers contributed to less than 20% of the company's total revenues in FY2018. This reduces the company's exposure to the downturns associated with any specific customer and ensures greater stability of revenues even in case of any client loss. This apart, wide distribution network, established relationship with suppliers and distributors, pre and post-sales support offered to its customers also contribute to the stability in revenues over the medium term.

Meaningful market share in the Indian silicon-based TFA market; continuous investment in research and development enhances market position - RCPL is one of the large players in the Indian market for silicone-based TFAs and enjoys an estimated market share of around 15%. Further, the company continues to invest about 4% of its operating income regularly in R&D activities for new product development. Strong growth in the hand-sanitiser, personal-care, auto-care and nano-technology products are aiding the company in further diversifying its customer base and increasing its presence in the market.

Comfortable capital structure – With a gearing of 0.6 times as on March 31, 2018, the capital structure of the company remains comfortable. Although the company has some debt-funded capital structure on the anvil, the impact of the same on the capital structure is likely to be minimal owing to the relatively strong net worth base.

Credit challenges

Weakening of coverage indicators due to decline in margins in H1 FY2019 – At a standalone level, the operating margins of the company declined to 5.8% in H1 FY2019 from 9.2% in FY2018 owing to rise in the cost of silicone oil, the primary input material for the company. Although the company has increased the prices of its silicone products to some extent, it has not been able to pass on the rise in cost to the full extent, leading to the decline in the margins. This has led to weakening of the coverage indicators in H1 FY2019. The margins and coverage indicators are expected to remain weak for the full fiscal.

High competition in a fragmented industry limits pricing flexibility and restricts margins - The textile chemicals market in India is highly fragmented with over 300 large as well as small players competing in the market. The other large players in the segment include global silicone-based chemical manufacturers such as BASF, Clariant and Huntsman; and domestic manufacturers such as Britacel Silicones Limited and Fineotech Chemicals Ltd. With operating income of Rs. 197.0 crore in FY2018, the scale of operations of RCPL remains modest. As such the ability of the company to influence the market price or pass on the fluctuations in raw-material prices to its customers remains restricted given the competitive intensity.

High dependence on textile industry exposes the company to volatility in the industry - RCPL derives about 75-80% of its revenues from the textile segment, exposing its revenues to cyclicity in the textile industry. Demonetisation and implementation of GST has impacted the textile industry in FY2017 and FY2018 respectively and curbed the revenue growth for the company under the textile segment to some extent. However, strong revenue growth in the non-textile segment has supported the overall growth for the company.

Moderate working capital intensity of operations – The receivable days are high for the company as it offers about 90 days credit to customers. Considering the high lead time for imported raw materials and the high proportion of imports, the company has high raw material inventory. This apart, the company has sizeable finished goods inventory which is maintained to make quick delivery to its customers. These factors have contributed to NWC/OI of ~30% over the last two to three years.

Liquidity position

The cash accruals are expected to decline in FY2019 owing to decline in operating margins. However, ICRA does not foresee any liquidity concerns as the cash accruals are expected to be adequate to meet the interest and repayment obligations as well as to meet the margins requirements for the expected increase in borrowings. The undrawn term loans are sufficient to meet the capital expenditure plans and the enhancement in the working capital limits is expected to provide adequate buffer to meet any contingent requirements.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Resil Chemicals Private Limited. As on March 31, 2018, the Company had 2 subsidiaries, that are enlisted in Annexure-2.

About the company

Incorporated by Mr. M.S.Mohan and Mr. M.S.Vijayan in 1991, Resil Chemical Private Limited (RCPL) commenced operations as an indenting agent for the sale of silicones. In 1994, RCPL integrated backwards to manufacture silicone-based textile finishing chemicals. The company also manufactures organic finishing agents, lubricants, enzymes and softeners for the textile industry. Over the years, RCPL has diversified its product range to include performance chemicals for industries like leather, rubber and plastics, construction, pharmaceutical, paper, agriculture, personal care and cosmetics, and car-care (under the brand name 'Vista'). It also diversified into nano-technology based products for textile, personal care and plastic industries. These products are marketed through its wholly-owned subsidiary N9 World Technologies Private Limited.

RCPL has its head-office and R&D centre in Bangalore and has sales offices in Tirupur, New Delhi, Mumbai, Ludhiana, Ahmadabad, and Kolkata. Apart from these, the company has an overseas liaison office in Dhaka, Bangladesh. The company has three production facilities in and around Bangalore, employing over 400 people, with an aggregate installed capacity of 29,467 MT per annum.

Key financial indicators – Consolidated (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	179.0	203.6
PAT (Rs. crore)	7.6	9.3
OPBDITA/OI (%)	9.7%	9.7%
RoCE (%)	18.1%	14.7%
Total Debt/TNW (times)	0.6	0.6
Total Debt/OPBDITA (times)	2.3	2.1
Interest Coverage (times)	3.9	4.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on Sep 30, 2018	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Cash Credit	Long Term	35.00		[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loan	Long Term	29.86	13.16	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Fund based	Short Term	4.00		[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Non-fund based	Short Term	5.40		[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Interchangeable	Short Term	(4.00)		[ICRA]A2+	[ICRA]A1	[ICRA]A1	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	35.00	[ICRA]A- (Stable)
NA	Term Loan 1	FY2015	-	August 2022	15.86	[ICRA]A- (Stable)
NA	Term Loan 2	February 2018	-	March 2026	14.00	[ICRA]A- (Stable)
NA	Standby Line of Credit #	-	-	-	4.00	[ICRA]A2+
NA	Letter of Credit ^	-	-	-	4.50	[ICRA]A2+
NA	Bank Guarantee	-	-	-	0.50	[ICRA]A2+
NA	Credit Exposure Limit	-	-	-	0.40	[ICRA]A2+
NA	PFCF/EPC/FBR/EBD	-	-	-	(4.00)	[ICRA]A2+
Total					74.26	

Interchangeable between Fund-based/non-fund based

^ One-way interchangeability from letter of credit to cash credit to the extent of Rs. 2.00 crore

Source: Resil Chemicals Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
N9 World Technologies Private Limited	100.00%	Full Consolidation
Siri Life Sciences Private Limited	100.00%	Full Consolidation

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