

March 02, 2020

Resil Chemicals Private Limited: Ratings revised to [ICRA]BBB+ (Stable)/[ICRA]A2, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Cash 35.00 Credit)		44.00	[ICRA]BBB+ (Stable); revised from [ICRA]A- (Stable)
Long Term – Term Loan	29.86	27.90	[ICRA]BBB+ (Stable); revised from [ICRA]A- (Stable)
Short Term - Fund Based	4.00	4.00	[ICRA]A2; revised from [ICRA]A2+
Short Term - Non-fund Based	5.40	5.40	[ICRA]A2; revised from [ICRA]A2+
Short Term – Interchangeable (4.00)		(5.00)	[ICRA]A2; revised from [ICRA]A2+
Total	74.26	81.30	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings considers the weakening of debt coverage indicators with the decline in profitability in FY2019 and 10M FY2020. The margins declined because of a sharp rise in input material costs, which could not be completely passed on to its customers amidst intense competition. Although the margins witnessed some recovery from October 2020, it continues to be subdued compared to the earlier years. The ratings remain constrained by Resil Chemicals Private Limited (RCPL) moderate scale of operations and moderate working capital intensity, restricting its operational flexibility. Further, RCPL remains exposed to the cyclicity in the textile industry from which it derives about 75-80% of its revenues. Nevertheless, the company's current 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 company's 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 substantial 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.

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.

Key rating drivers

Credit strengths

Diversified product portfolio catering to various requirements of 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, it 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 the business risk and the risk of product obsolescence or commoditisation in any specific product line.

Established relationship with a wide customer base - 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 less than 20% to the company's total revenues in FY2019. 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 the suppliers and distributors, pre and post-sales support offered to its customers also contribute to the stability in revenues over the medium term.

Substantial 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 – The company's gearing increased to 0.8 times as on March 31, 2019, but the debt levels reduced in 10M FY2020, and consequently the gearing improved to 0.5 times as on January 31, 2020, indicating a comfortable capital structure. Going forward, the company has some debt-funded capital structure on the anvil. However, 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 – At a consolidated level, the operating margins of the company declined to 5.9% in FY2019 from 9.7% in FY2018 owing to rise in the cost of silicone oil, the primary input material for the company. Although the company increased the prices of its silicone products, it was not able to pass on the rise in cost to the full extent, leading to a decline in the margins and stretched coverage indicators. The margins remained weak in H1 FY2020 owing to the consumption of the high-cost raw material stocked in FY2019, and the margins started improving from October 2019. However, the same continue to remain subdued as compared to the FY2018 levels and the coverage indicators are expected to remain stretched in FY2020.

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 Corporation, Clariant and Huntsman; and domestic manufacturers such as Britacel Silicones Limited and Fineotech Chemicals Ltd. With an operating income of Rs. 220.1 crore in FY2019, the scale of operations of RCPL remains moderate. As such the company's ability to influence the market price or pass on the fluctuations in raw-material prices to its customers remains restricted given the intense competition.

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 the cyclicity in the textile industry. Demonetisation,

implementation of the GST, and the overall weakening of end-user demand has curbed the revenue growth for the company under the textile segment over the last three fiscals. However, revenue growth in the non-textile segment has supported the overall growth of 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. The company increased its raw material holdings in FY2019 owing to the overall scarcity in the market. This resulted in increase in NWC/OI to 31.6% in FY2019. The working capital intensity, however, has witnessed reduction during 10m FY2020, aided by a fall in inventory levels as the material availability concerns were resolved.

Liquidity position – Adequate

The company has repayment obligation of Rs. 4.8 crore in FY2020 and the cash accruals are expected to be comfortable to meet the same. The working capital utilisation was high at around 90% between January 2019 and September 2019. However, the utilisation levels started declining from October 2019. Besides, the expected enhancement in the working capital limits from Rs. 37.0 crore to Rs. 44.0 crore in February 2020 should provide ample buffer for any contingencies. The liquidity position of the company is expected to remain adequate as RCPL has adequate undrawn term loans to meet the capital expenditure requirements.

Sensitivity Analysis

Positive triggers – The ratings may be upgraded if the company’s operating income and profitability improve on a sustained basis, leading to strengthened coverage indicators. Specific credit metrics that may lead to an upgrade includes ROCE over 15% and Total Debt/OPBDITA less than 2.3 times on a sustained basis.

Negative triggers – The ratings may be downgraded if the profitability remains subdued, leading to a further weakening of coverage indicators. Specific credit metrics that may lead to a downgrade include DSCR less than 1.5 times or Total Debt/OPBDITA over 4.0 times on a sustained basis. Any increase in working capital intensity, or higher-than-anticipated capex, leading to a stretch in the liquidity position, may also lead to a downgrade.

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, 2019, 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, 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 www.icra.in

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)

	FY2018	FY2019
Operating Income (Rs. crore)	203.6	220.1
PAT (Rs. crore)	9.3	3.4
OPBDITA/OI (%)	9.7%	5.9%
RoCE (%)	14.7%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3
Total Debt/OPBDITA (times)	2.1	4.4
Interest Coverage (times)	4.6	2.7
DSCR	2.7	1.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on Jan 31, 2020	Date & Rating 02-March 2020	Date & Rating in FY2019 05 Feb 2019	Date & Rating in FY2018 08 Mar 2018	Date & Rating in FY2017 23 Jan 2017
1 Cash Credit	Long Term	44.00		[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loan	Long Term	27.90	14.07	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Fund based	Short Term	4.00		[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1
4 Non-fund based	Short Term	5.40		[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1
5 Interchangeable	Short Term	(5.00)		[ICRA]A2	[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	-	-	-	44.00	[ICRA]BBB+ (Stable)
NA	Term Loan 1	FY2015	-	August 2022	10.40	[ICRA]BBB+ (Stable)
NA	Term Loan 2	February 2018	-	March 2026	9.50	[ICRA]BBB+ (Stable)
NA	Term Loan 3 (Proposed)	-	-	-	8.00	[ICRA]BBB+ (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	-	-	-	(5.00)	[ICRA]A2
Total					81.30	

^ Two-way interchangeability between letter of credit and Bank Guarantee
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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