

November 24, 2022

## Elkay Chemicals Private Limited: Ratings upgraded; rated amount enhanced

### 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); upgraded from [ICRA]BBB (Stable)
Long term – Fund based – EPC/PCFC*	-	(5.00)	[ICRA]BBB+ (Stable) assigned
Short term - Non-fund based – LC	4.50	6.50	[ICRA]A2; upgraded from [ICRA]A3+; assigned for enhanced amount
Short term - Non-fund based – LC*	-	(5.00)	[ICRA]A2 assigned
Short term - Non-fund based/BG*	-	(0.25)	[ICRA]A2 assigned
<b>Total</b>	<b>17.00</b>	<b>19.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The upgrade in the ratings of Elkay Chemicals Private Limited (ECPL) factors in the strong growth in volumes in the last 12-18 months and expectations of the trend to continue owing to healthy domestic demand prospects. Further, elevated spreads between realisations and input prices provided a strong traction to cash generation, resulting in robust cash accruals in FY2022. While the cash accrual levels are likely to moderate going forward, the cash generation is likely to remain healthy than the historic levels. This is expected to translate into a healthy financial risk profile given the low debt levels.

The company reported an annual volume growth of ~42% in FY2022, which along with elevated realisations translated into a strong growth in operating income. The operating profit margin (OPM) in FY2022 was around 26% (on consolidated basis) on the back of a surge in sales realisation following healthy demand and economies of scale. However, the OPM is expected to moderate in the current fiscal with the fall in spreads but will continue to be healthy. The ratings also factor in ECPL's strong capital structure and debt protection metrics, reflected in a gearing of 0.15 times, total debt/OPBDITA of 0.20 times and interest coverage of 25.41 times for the fiscal and expectations of the trend to sustain, going forward. With expectations of limited addition in debt and healthy cash flow generation in the near to medium term, the credit profile is likely to remain comfortable, going forward.

The ratings continue to take into consideration the company's professionally qualified and experienced promoters with a track record of over three decades in manufacturing silicone-based products. The ratings also consider the company's diversified product portfolio catering to a variety of industries, which provides cushion to its business model against certain industry-specific risks. Moreover, the customer base also remains diversified with established relationships with key customers, ensuring revenue visibility for the company.

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 monopoly in the global silicone market. In the current scenario, ECPL derives a sizeable portion of its sales from exports with some dependence on Europe. With the expected slowdown in the region, the sales can be impacted. However, the company is making attempts to diversify its geographical presence.

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

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that ECPL will continue to maintain its business positioning given its established relationships with key clients from diversified industries to generate a comfortable level of cash flow and maintain a healthy 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 to 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, among others. The diverse product portfolio lowers business risk and the risk of product obsolescence or commoditisation in any specific product line. The company has established relations with customers with repeat orders from majority of these clients and a healthy share of business in the products supplied.

The company derives ~37% of the revenues in FY2022 from new customers acquired in the last two years. The company derived about 50-55% of its revenues from exports, which has increased to 65-70% in the current fiscal. Going forward, while Europe is likely to face demand side pressures, the company has been diversifying its presence across Middle East, South Africa, Kazakhstan, etc. 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** – The company's capital structure and debt protection metrics have remained comfortable in the past due to minimal reliance on external borrowings. The company's working capital intensity has remained low, reflected in the net working capital intensity/operating income of less than 20% during the last five years. Further, ECPL has witnessed a significant improvement in its financial profile in FY2022. The company reported an operating profit margin of 26.49% on an OI of Rs. 297.23 crore in FY2022 on account of a surge in demand across end-user industries globally, coupled with the increase in sales realisation. The uptick in demand for existing and new customers enabled the company to fetch higher margins, thereby strengthening its financial profile. The interest coverage stood at 25.41 times and total debt/operating profit at 0.20 times in FY2022.

**Growing demand for silicone in various end-user industries to drive industry growth** - The global silicone market is expected to grow at a compound annual growth rate (CAGR) of 6-7% till 2030. The growing demand for silicone in various end-user industries such as personal care, consumer goods, industrial process 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** – With a consolidated revenue base of ~Rs. 297.23 crore in FY2022, ECPL continues to operate on a moderate scale of operations. The company reported ~142% YoY revenue growth in FY2022 on account of an uptick in demand and improvement in sales realisation in FY2022. Further, Elkay (standalone) reported revenues of Rs. 269.61 crore in FY2022 and Rs ~164.00 crore in H1 FY2023. ICRA notes that the revenue growth prospects remain positive in the long term with the company investing in research and development (R&D) for developing contemporary products with diversified applications and increasing demand for existing products. The recent capacity expansion at Lote (Maharashtra) will also support the company's revenue 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 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 the company are multinational players on whom ECPL has moderate dependence for raw material procurement. Further, these suppliers command prices, which limits ECPL's bargaining power. However, the company's well-established relationships with several reputed suppliers of silicone monomers mitigate the risk to an extent.

### Liquidity position: Adequate

At the consolidated level, the company had an external term loan of Rs. 5.51 crore on its books as on March 31, 2022. With a working capital utilisation of around 70-75%, there is adequate buffer for contingencies. Further, the drawing power has improved substantially in the current year with the increase in operations. With the company having enough net accruals and cash and liquid investments of ~Rs. 21.00 crore as on March 31, 2022 (standalone) to meet the capital expenditure requirements, there are no concerns over the company's liquidity position. The company has capex plans of Rs. 30.00 crore in Elkay over the next two years which can be met using internal accruals.

### Rating sensitivities

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

**Negative factors** – The ratings could be downgraded if the entity shows significant decline in OI and profitability on a sustained basis or any deterioration in liquidity profile.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology Entities in the Chemical Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	<b>Consolidation</b> The rating is based on consolidated financials of Elkay Chemicals Private Limited (ECPL) and its subsidiary, Silicone International Products (SIP).

### 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 and has an installed capacity of 7,620 MTPA. Elkay also has manufacturing facilities at Khopoli and Lote to manufacture high-quality silicone fluids and emulsions. Elkay commenced exports in 1998 and exports (28 countries, including USA, Europe, Asia, Oceania and Middle East) half of its annual output.

Elkay is a partner in partnership firms viz. Silicone International Products (96% Profit Sharing) and Elkay Speciality Products (2.5% profit sharing).

### Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	122.82	297.23
PAT (Rs. crore)	8.82	51.60
OPBDIT/OI (%)	14.40%	26.49%
PAT/OI (%)	7.18%	17.36%
Total outside liabilities/Tangible net worth (times)	0.64	0.60
Total debt/OPBDIT (times)	0.84	0.20
Interest coverage (times)	10.00	25.41

PAT: Profit after Tax before adjustment for associate and joint ventures; 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 (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. Crore)	Amount outstanding (Rs. Crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				24-Nov-22	21-Dec-2021	27-Nov-2020	22-May-2019
1 Fund based-Overdraft facilities	Long-Term	12.50	-	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2 Fund based – EPC/PCFC	Long-Term	(5.00)	-	[ICRA]BBB+(Stable)	-	-	-
3 Non-fund based limits	Short-Term	6.50	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3
4 Non-fund based – LC	Short-Term	(5.00)	-	[ICRA]A2	-	-	-
5 Non-fund based/BG	Short-Term	(0.25)	-	[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 – LC	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 No/Banker	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Long-term Overdraft facilities	-	-	-	12.50	[ICRA]BBB+(Stable)
-	Fund Based – EPC/PCFC	-	-	-	(5.00)	[ICRA]BBB+(Stable)
-	Non-fund Based Limits	-	-	-	6.50	[ICRA]A2
-	Non-Fund Based – LC	-	-	-	(5.00)	[ICRA]A2
-	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

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