

October 24, 2024

Unitop Chemicals Private limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund based – Term loan	106.6	[ICRA]AA- (Positive); assigned
LT – Fund based – Working capital facilities	90.4	[ICRA]AA- (Positive); assigned
LT/ST - Derivative limits	3.00	[ICRA]AA- (Positive)/[ICRA]A1+; assigned
Total	200.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Rossari Biotech Limited (RBL), and its subsidiaries enumerated in Annexure-II on account of the strong operational, managerial and financial linkages among the entities.

The revision in the outlook to Positive factors in the expectation of a healthy ramp-up in the company's revenue and profitability, going forward, supported by steady demand for its products and expansion of the ethoxylation capacity under Unitop Chemicals Private Limited (rated [ICRA]AA- (Positive)/[ICRA]A1+). The company continues to witness healthy demand from its end-user industries, particularly home, personal care and performance chemicals, while it is expanding its distribution network in the textile chemical segment. The capacity expansion under Unitop Chemicals Private Limited includes additional ethoxylation capacity of 30,000 MTPA to meet the growing demand in agrochemicals, home and personal care, oil & gas and the pharma sector. The company is also setting up a 20,000-MTPA capacity to produce specialty chemicals, including the raw materials used by other Group companies.

The ratings continue to factor in the extensive experience of RBL in the specialty chemical manufacturing business spanning around two decades and the established track record of its management. The ratings also consider the strong financial profile of RBL, characterised by healthy profitability and the low reliance on external borrowings, resulting in comfortable gearing and coverage indicators. The ratings also factor in the company's robust in-house research and development (R&D) facilities, aided by the expertise of Unitop Chemicals Private Limited and Tristar Intermediates Private Limited in complementary chemistries and the synergistic business opportunities through them, enabling cross-selling and expanding the Group's market reach.

The ratings are, however, constrained by competition in the specialty chemicals segment, both from domestic and prominent multinational companies. These competitive pressures impose constraints on the company's customer dynamics, as they may limit its flexibility in pricing and potentially impact the profitability. Though raw material costs are stable at present, the inherent volatility in prices remains a key monitorable as it directly affects the company's profitability, even as RBL may be able to partially pass on the cost increase to customers.

ICRA notes that the company is undertaking a total capex of Rs. 178 crore. The funding for the entire capex has been tied up and given the healthy internal cash generation, the dependence on external borrowings remains limited. However, the Group remains exposed to project execution risks, given the size of the capex. The timely commissioning of the projects within the estimated capital outlay and the subsequent ramp-up of the operational performance will remain a key monitorable, going forward.

The Positive outlook reflects ICRA's opinion that the overall scale of operation is expected to witness a healthy improvement, driven by steady demand for its products and the additional revenue from the upcoming capex plans once commissioned.

Key rating drivers and their description

Credit strengths

Experienced management and established market position with diversified product portfolio - The promoters of RBL are technocrats with extensive experience in the chemical industry spanning over three decades. The company is a well-established player in the specialty chemical business and caters to three broad segments: i) Textile specialty chemicals (TSC) ii) Home, personal care and performance chemicals (HPPC) and iii) Animal health and nutrition (AHN). Rossari group has a large and diversified product portfolio catering to various end-user industries. The acquisitions of Unitop Chemicals Private Limited, Tristar Intermediates Private Limited and Romakk Chemicals Private Limited provided synergistic benefits and enabled the company to widen its product offerings.

Strong R&D facilities for new product development and process innovation - While the company had in-house R&D capabilities, the recent acquisitions have augmented the Group's R&D capabilities in both current and new chemistries, which will aid new product development. The new products being developed include green products in the TSC segment, nanotechnology-based cleaning products and water treatment chemicals.

Established relationship with wide customer base of distributors and institutional customers - The company has a wide customer base of over 500 clients, comprising reputed institutional players and distributors. The company has maintained long-term relationships with several customers, receiving repeat orders and, in several cases, supplying customised products, which improved the client stickiness. The company's exports have also increased, and it is exploring new customer segments and channels. The developments on this front will be monitored.

Strong financial risk profile - The company witnessed a healthy revenue growth ~11% in FY2024 on a consolidated basis, aided by the robust performance of the subsidiaries. The overall profitability has remained robust due to stable raw material prices along with a healthy growth in volumes. The debt levels remain moderately low, resulting in healthy credit profile with TD/OPBDITA at 0.48 times and interest coverage at 12.9 times, although the working capital intensity increased in FY2024 owing to inventory stocking by the company to meet the surge in seasonal demands.

Credit challenges

Susceptible to volatility in sharp raw material price fluctuations and forex movements - The company's profitability remains vulnerable to the volatility in raw material prices and foreign currency exchange rate fluctuations. The company's key raw materials include acrylic acid, acetic acid, silicone oil, etc., whose prices are linked to crude oil and are inherently volatile in nature. Although the prices of raw materials have stabilised in FY2024, the inherent price volatility remains critical as the company's profitability is contingent upon the stability of raw material costs. However, its ability to pass on a portion of the cost increase to customers provides some cushion.

Moreover, imports contribute ~14% to its raw material consumption; however, the company is largely protected against forex risks as the natural hedge from exports exceeds the imports. ICRA takes note of the steps taken by the company to reduce imports through the procurement of raw material from local players, while at the same time exports are increasing, leading to an improvement in the natural hedge.

Intense competition - The company faces competition from domestic and international players, which limits its pricing flexibility and restricts the margin to an extent in several segments.

Project execution risk - The Group is executing a Rs. 178-crore capex with Rs. 128-crore capex in Unitop Chemicals Private Limited for expanding the ethoxylation capacity and the remaining in RBL for increasing the production capacity for certain specialty chemicals in the HPPC segment and for partial backward integration. Given the pending execution, the company remains exposed to project execution risk. The timely completion of the projects will remain a key monitorable.

Liquidity position: Adequate

The Group's liquidity is expected to remain adequate, given the comfortable debt repayments of ~Rs. 10 crore in FY2025 and ~Rs. 12.03 crore in FY2026 because of a long-tenor loan availed by the company vis-à-vis its healthy cash accruals. The liquidity is also supported by free cash balance of ~Rs. 65 crore as on March 31, 2024, the largely unutilized working capital limits of Rs. 172 crore, a moderate working capital intensity and stable cash flow from operations. The company may incur an outflow of ~Rs. 80 crore for the remaining payout to acquire the remaining stake in Unitop Chemicals Private Limited in FY2025, which ICRA expects to meet comfortably amid the long-term debt tie-up for its modest capex requirements.

ESG Risks

As a chemical manufacturing company, RBL is exposed to environmental regulations and safety standards, which are expected to be tightened over time. These necessitate investments towards meeting the evolving standards. As per the disclosures, the company complies with the provisions of the relevant standards. Both the plants of the company have also been certified by the Zero Discharge Hazardous Chemicals (ZDHC) level 3 certification. ICRA also takes note of the company's efforts towards new product development with focus on sustainability. The company's ability to comply with the evolving standards and the success of new product development efforts will be a rating driver from a long-term credit perspective.

Being a chemical manufacturing company, the exposure to on-site health/safety related risks remains high. The company mitigates the risk by adhering to the stipulated healthy and safety regulations/protocols; nonetheless, the operational incidents resulting in injuries etc. continue to be the reputational risks. While the company remains exposed to the above social risks, it does not materially affect its credit profile.

Rating sensitivities

Positive factors - A sustained improvement in the revenue and margins of the company resulting in sharp improvement in the credit profile may lead to a rating upgrade. A specific credit metric that may lead to a rating upgrade will be TD/OPBDITA<1.0x on a sustained basis.

Negative factors- A sustained moderation in the revenue, profitability and/or a stretch in the working capital cycle thereby leading to weakening of the credit and liquidity profile may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals Rating approach- consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rossari, The subsidiaries and the JVs of Rossari that are enlisted in Annexure II

About the company

Unitop Chemicals Private Limited (Unitop), incorporated in 1980, manufactures and supplies surfactants, emulsifiers and specialty chemicals to a diversified customer base. It caters to the agrochemical, oil and gas, textile, pharmaceutical, rubber and personal care segments. The company is majorly into ethoxylation and propoxylation chemistry. Unitop Chemicals Private Limited has a joint venture, Hextar Unitop Sdn Bhd, in collaboration with Hextar Chemicals Sdn Bhd of Malaysia, which produces specialty chemicals for various industries. Unitop Chemicals Private Limited has been a part of the Rossari Group since August 2021 with 80% stake owned by Rossari Biotech Limited at the end of FY2024. The remaining 20% equity share

will be acquired, subject to the completion of the customary terms and conditions, as per the share purchase agreement (SPA) between the Rossari Group and the erstwhile promoters.

Key financial indicators (audited)

Unitop Chemicals Private Limited (Consolidated)	FY2023	FY2024
Operating income	554.1	650.9
PAT	54.5	45.9
OPBDIT/OI	13.9%	9.8%
PAT/OI	9.8%	7.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.0	0.02
Interest coverage (times)	855.6	32.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Oct 24, 2024			
1 Fund based – Term loan	Long term	106.6	[ICRA]AA- (Positive)	-	-	-
2 Fund based – Working capital facilities	Long term	90.4	[ICRA]AA- (Positive)	-	-	-
3 Derivative limits	Long term/ Short term	3.00	[ICRA]AA- (Positive) / [ICRA]A1+;	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term loan	Simple
Fund based – Working capital facilities	Simple
Derivative limits	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	Fund based – Term loan	March 2024	8.5%	2029	106.6	[ICRA]AA- (Positive)
NA	Fund based – Working capital facilities	NA	NA	NA	90.4	[ICRA]AA- (Positive)
NA	Derivative limits	NA	NA	NA	3.00	[ICRA]AA- (Positive)/[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	RBL Ownership	Consolidation Approach
Buzil Rossari Private Limited	100.00%	Full Consolidation
Rossari Personal Care Products Private Limited	100.00%	Full Consolidation
Unitop Chemicals Pvt. Ltd.	80.00%	Full Consolidation
Tristar Intermediates Private Limited	84.00%	Full Consolidation
Romakk Chemicals Private Limited	50.10%	Equity Method
Hextar Unitop SDN BHD	50.00%*	Equity Method

Source: Company; *Holding by Unitop Chemicals Pvt Ltd

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