October 14, 2022

Alkali Metals Limited: Ratings reaffirmed at [ICRA]BB+(Stable)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Cash Credit	16.0	16.0	[ICRA]BB+(Stable); reaffirmed
Long-Term Term Loan	4.55	2.1	[ICRA]BB+(Stable); reaffirmed
Short Term Non Fund-Based Facilities	7.00	7.0	[ICRA]A4+; reaffirmed
Long Term/Short Term Unallocated	14.45	16.9	[ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed
Total	**42.00**	**42.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in Alkali Metals Limited's (AML/the company) long track record in manufacturing sodium derivatives for more than three decades and its diverse product portfolio with presence in sodium derivatives, pyridine derivatives, fine chemicals and active pharmaceutical ingredients (API). Also, the company's capital structure continues to be healthy with a gearing of 0.3 times as on March 31, 2022 owing to moderate debt levels with the debt being primarily working capital in nature. The ratings also note the moderate customer concentration risk with the top five customers contributing 43% to the total revenues in FY2022.

The ratings are, however, constrained by AML's subdued return indicators with low RoCE over the last few years on account of reduced capacity utilisation and high working capital intensity owing to elevated inventory levels. ICRA also notes the company's modest scale of operations with revenues at Rs. 91.0 crore in FY2022 which improved, on a low base, from Rs. 55.4 crore in FY2021. The ratings also factor in the exposure of profitability to foreign exchange fluctuations (as exports account for a significant portion of AML's total sales) and volatility in raw material prices.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's belief that AML will continue to benefit from its vast track record in manufacturing sodium derivatives.

Key rating drivers and their description

Credit strengths

Diverse product portfolio with extensive track record in manufacturing sodium derivatives – AML manufactures products across four categories – sodium derivatives, pyridine derivatives, fine chemicals and pharmaceutical APIs. AML has an extensive track record of more than three decades in manufacturing sodium derivatives such as sodium amide, sodium azide, and sodium hydride. The sodium derivatives have been the major products for the company and together contributed 67% and 65% to the overall operating income in FY2021 and FY2022, respectively. Further, the revenue contribution from the fine chemical segment has also increased in the last two years, contributing to 19% and 28% of the overall operating income in FY2021 and FY2022, respectively.

Moderate customer concentration risk – The customer concentration remained moderate with the top five customers accounting for 43% of the total sales in FY2022. The customer base consists of established names with repeat orders from both domestic and export customers.

Healthy capital structure – The company's capital structure remained healthy with a gearing of 0.3 times as on March 31, 2022 owing to moderate debt levels with the debt being primarily working capital in nature. The coverage indicators remained moderate with an interest coverage of 4.3 times in FY2022 and 4.9 times in Q1 FY2023.

However, as on June 30, 2022, the promoters held 69.6% equity stake in the company, of which around 30.1% was pledged or encumbered, which could weigh on the company's financial flexibility.

Credit challenges

Modest scale of operations – The operating income remained moderate at Rs.91.0 crore in FY2022, which improved, on low base, from Rs. 55.4 crore in FY2021. There has been a continuous effort to develop new products and commercialise them on a campaign basis. The same is reflected in the increased revenue contribution from the fine chemical segment in FY2022. However, given the low capacity utilisation and no major expected ramp-up in capacity utilisation, the revenues are likely to be range-bound in the near term.

Working capital intensive nature of operations – The working capital intensity has been high over the years owing to high inventory requirements. As a result, the sanctioned working capital limit utilisation continues to be elevated. The inventory days are high as AML maintains a buffer inventory to meet sudden export orders along with the long processing time, given the various stages of the manufacturing process. The inventory levels are also high owing to the long lead time for imported raw materials. The company primarily imports sodium metal and pyridine.

Further, exports account for around 60% of the total revenues in FY2022, which makes the profitability vulnerable to forex rate fluctuations. However, the imports provide a natural hedge to the company to some extent. The company does not hedge its net forex exposure and thus remains exposed to the forex rate movements for the unhedged portion.

Low return indicators – The RoCE remained low at 4-7% over the last few years till FY2021 on account of low capacity utilisation of its facilities. Further, though the ROCE improved to 10.8% in FY2022, it continues to be modest given the low capacity utilisation of its facilities. The Vishakhapatnam unit was started in 2011-2012 to manufacture APIs and fine chemicals. However, the capacity utilisation remained significantly low, which has impacted its revenues and profitability.

Environmental and Social Risks

AML, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety. However, as per the discussion with the entity, AML has been compliant with environmental regulations. The company has five decades of experience in handling extremely hazardous processes and products involving sodium-based compounds and pyridine derivatives.

Liquidity position: Stretched

AML's liquidity position is stretched due to the limited cushion available in the working capital limits and low cash balances. The liquidity position is stretched with high average utilisation of working capital limits at 85% of the sanctioned limits in the last 12 months ended July 2022 due to the high inventory levels. It has repayment obligations of Rs. 1.6 crore in FY2023 and the estimated cash flows would be sufficient to service the repayment obligations. The liquidity position is expected to remain stretched with high inventory levels, a limited sanctioned fund-based working capital limits, regular capex and consistent annual dividend payouts.

Rating sensitivities

Positive factors – ICRA could upgrade AML's ratings if there is a substantial growth in revenues and an improvement in operating margins and liquidity on a sustained basis.

Negative factors – Pressure on AML's rating could arise if the revenues or operating margins decline, resulting in lower cash accruals. Deterioration in the working capital cycle impacting the company's liquidity position or a large debt-funded capital expenditure could also be a trigger for a rating downgrade. Specific credit metrics that could lead to a downgrade include interest coverage below 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in Chemical industry](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on standalone financials of AML

About the company

AML was set up in 1968 as a joint venture with Andhra Pradesh Industrial Development Corporation Limited (APIDCL). Initially, the company produced sodium metal, but it exited this business in 1989 as rising power costs made manufacturing sodium metal unviable. Subsequently, it diversified into manufacturing derivatives based on sodium metal, picoline and other cyclic compounds. Its products can be classified as sodium derivatives, amino pyridines, fine chemicals and APIs. Its products are sold primarily to pharmaceutical companies for further processing and conversion into bulk drugs.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	55.4	91.0
PAT	-1.2	3.5
OPBDIT/OI	11.0%	12.5%
PAT/OI	-2.2%	3.8%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	3.6	1.6
Interest coverage (times)	2.4	4.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Note: Amount in Rs. crore; All calculations are as per ICRA Research; Total assets and net worth exclude revaluation reserves

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 1, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 14, 2022	Sep 10, 2021	Nov 26, 2020	Nov 7, 2019
1	Term Loan	Long-term	2.1	2.1	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2	Cash Credit Limits	Long-term	16.0	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
3	Non Fund Based	Short-term	7.0	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

4	**Unallocated Limits**	Long-term/ Short-term	16.9	-	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non-Fund-Based Facilities	Very Simple
Unallocated	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2021	NA	FY2025	2.1	[ICRA]BB+(Stable)
NA	Cash Credit	NA	NA	NA	16.0	[ICRA]BB+(Stable)
NA	Non fund-based limits	NA	NA	NA	7.0	[ICRA]A4+
NA	Unallocated limits	NA	NA	NA	16.9	[ICRA]BB+(Stable)/[ICRA]A4+

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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