

December 05, 2023

Alkali Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term cash credit	16.00	18.00	[ICRA]BB+(Stable); reaffirmed
Long-term term loan	2.10	1.50	[ICRA]BB+(Stable); reaffirmed
Short term non-fund based facilities	7.00	7.00	[ICRA]A4+; reaffirmed
Long term/Short term unallocated	16.90	15.50	[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). The ratings also factor in the company's healthy capital structure with a gearing of 0.5 times as on March 31, 2023, and as on September 30, 2023, owing to the moderate debt levels with the debt being primarily working capital in nature.

The ratings are, however, constrained by AML's subdued return indicators with low RoCE over the last few years on account of low capacity utilisation and high working capital intensity owing to the elevated inventory levels. ICRA also notes the company's modest scale of operations with revenues at Rs. 88.2 crore in FY2023 and Rs. 33.9 crore in H1 FY2024. 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 contributed 65% and 56% to the overall operating income in FY2022 and FY2023, respectively. Further, the revenue contribution from the fine chemical segment has also increased in the last two years, contributing to 28% and 25% of the overall operating income in FY2022 and FY2023, respectively.

Healthy capital structure – The company's capital structure remained healthy with a gearing of 0.5 times as on March 31, 2023, and September 30, 2023 owing to moderate debt levels with the debt being primarily working capital in nature. The coverage indicators remained moderate with an interest coverage of 3.6 times in FY2023 and 2.7 times in H1 FY2024.

However, as on June 30, 2023, 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. 88.2 crore in FY2023 and Rs. 33.9 crore in H1 FY2024. 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 and FY2023. 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 65% of the total revenues in FY2023, 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 continues to be modest, given the low capacity utilisation of its facilities. The Visakhapatnam 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 92% of the sanctioned limits between August 2022 and October 2023 due to the high inventory levels. It has repayment obligations of Rs. 1.1 crore in FY2024 and Rs. 0.6 crore in FY2025, 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 buffer in sanctioned fund-based working capital limits, regular maintenance 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 downgrade. A 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

Alkali Metals Limited (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

	FY2022	FY2023	H1FY2024*
Operating income	91.0	88.2	33.9
PAT	3.5	2.9	0.2
OPBDIT/OI	12.5%	11.0%	10.3%
PAT/OI	3.8%	3.3%	0.6%
Total outside liabilities/Tangible net worth (times)	0.9	1.0	1.1
Total debt/OPBDIT (times)	1.6	2.5	3.9
Interest coverage (times)	4.3	3.6	2.7

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; Amount in Rs crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 5, 2023	Oct 14, 2022	Sep 10, 2021	Nov 26, 2020
1 Term loan	Long-term	1.5	1.5	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2 Cash credit limits	Long-term	18.0	-	[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	15.5	-	[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: [Click Here](#)

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	1.5	[ICRA]BB+(Stable)
NA	Cash credit	NA	NA	NA	18.0	[ICRA]BB+(Stable)
NA	Non fund-based limits	NA	NA	NA	7.0	[ICRA]A4+
NA	Unallocated limits	NA	NA	NA	15.5	[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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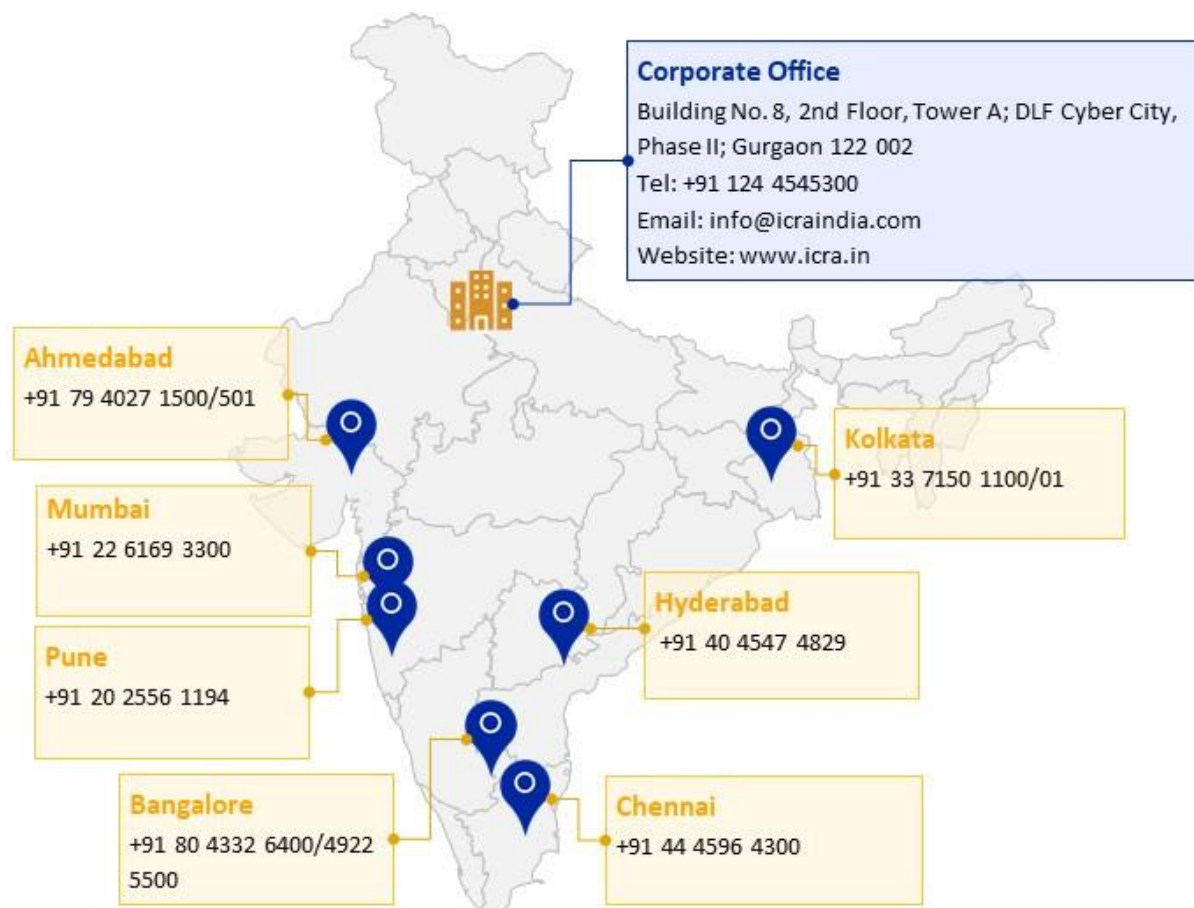


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