

Deepak Nitrite Limited

Instrument	Amount	Rating Action
Term Loans	Rs. 106 crore (reduced from Rs. 140 crore)	[ICRA]A+ (stable) reaffirmed
Fund based Limits	Rs. 300 crore	[ICRA]A+ (stable) reaffirmed
Non-fund based Limits	Rs. 170 crore	[ICRA]A1+ reaffirmed
Fund & Non-Fund Based Limits (Interchangeable)	Rs. 150 crore (enhanced from Rs. 130 crore)	[ICRA]A+ (stable) / [ICRA]A1+ reaffirmed
Commercial Paper programme	Rs. 60 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 726 crore¹ (reduced from Rs. 740 crore) bank facilities of Deepak Nitrite Limited (DNL)². The long-term rating has a stable outlook. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ outstanding on the Rs. 60 crore commercial paper programme of DNL.

The reaffirmation of ratings takes into account the long operating track record of the company in the chemical industry, its diversified product mix as well as exposure to diversified end-user industries, and the leading market position enjoyed by the company in most of its products in the domestic as well as global markets. The ratings continue to factor DNL's multi-purpose manufacturing facility with significant backward and forward integration linkages that provide flexibility to change the product mix and cater to changing market requirements, and its technical expertise to handle complex and hazardous chemical processes like nitration, hydrogenation and diazotisation. The ratings also take into account the healthy increase in the cash accruals of the company over the last five-year period with scale up in revenues driven by successful introduction of new products as well as increased proportion of higher margin products in the sales mix.

While reaffirming the ratings, ICRA takes note of the delays in ramping up of operations at Dahej facility for Optical Brightening Agent (OBA) to optimal levels. While the sales of OBA grew by 40% (y-o-y) in FY2016, the production levels continue to remain lower than initial estimates. OBA, being a performance chemical, requires a longer validation cycle in foreign markets and the company has been unable to achieve the desired levels of market penetration, mainly in North America. The company is, however, taking steps to improve the profitability of the OBA operations by changing its sales strategy along with reducing certain fixed costs. Thus, its ability to achieve healthy ramp up of OBA operations with improvement in its profitability and return indicators would remain important from a credit perspective.

The ratings are constrained by the exposure of the company's profitability to volatility in the raw material prices, though the same is reduced in certain products through formula-linked price contracts. The ratings also take into account the large size phenol and acetone project being undertaken by the company's subsidiary, Deepak Phenolics Limited ([ICRA]BBB (stable)) at an estimated project cost of about Rs. 1,200 crore. The project is exposed to high implementation risks with commissioning targeted in January 2018, as well as funding risks with sizeable funds yet to be raised through a QIP (Qualified Institutional Placement) issue by DNL and through other sources. While standalone project economics remains favourable, the ability to ramp up the utilisation levels of the plant, post-commissioning, so as to be able to service the debt on a standalone basis would remain important from a credit perspective; the extent of financial support, if required, extended by DNL beyond its committed equity would be a key rating sensitivity. ICRA notes that the consolidated leveraging levels of the DNL would remain high over the medium term on account of the addition of borrowings for the large-scale phenol and acetone project. While reaffirming the ratings, ICRA has taken note of the recent fire break-out at the company's Roha manufacturing unit and the closure of its DASDA unit at Hyderabad for about a month on the orders of Telangana Pollution Control Board which has been subsequently revoked; the impact of these events on the financial profile of DNL is expected to be limited.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



Company Profile

Deepak Nitrite Limited (DNL) is the flagship of the Deepak Group, which was incorporated in the year 1970 by Mr. C.K. Mehta. It began as a fully indigenous sodium nitrite and sodium nitrate manufacturer and has gradually widened its product portfolio, enjoying a leading market position in most of its products in the domestic as well as global markets. DNL's product portfolio consists of Basic Chemicals, Fine & Speciality Chemicals (FSC) and Performance Products. DNL's manufacturing facilities are located at Nandesari and Dahej in Gujarat, Taloja and Roha in Maharashtra and Hyderabad in Andhra Pradesh. DNL's growth has also been aided by strategic acquisitions of companies with complementary product lines, in the past periods. DNL is currently setting up a large-scale greenfield project at Dahej for manufacturing of phenol and acetone at a project cost of Rs. 1,200 crore through a subsidiary, viz. Deepak Phenolics Limited.

In FY2016, DNL reported Profit after Tax (PAT) of Rs. 65.1 crore on an operating income of Rs. 1,330.1 crore. In H1 FY2017, DNL reported PAT of Rs. 83.3 crore on an operating income of Rs. 616.3 crore.

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For further details please contact:

Analyst Contacts:

Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

Mr. Abhishek Dafria, (Tel. No. +91-22-61693344)
abhishek.dafria@icraindia.com

Mr. Ankit Patel, (Tel. No. +91-79-40271509)
ankit.patel@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500