



Deepak Nitrite Limited

Instrument	Amount	Rating Action
Term Loans	Rs. 140.00 crore	[ICRA]A+ (stable) reaffirmed
Fund Based Limits	Rs. 300.00 crore	[ICRA]A+ (stable) reaffirmed
Non-Fund Based Limits	Rs. 170.00 crore	[ICRA]A1+ reaffirmed
Fund & Non-Fund Based Limits (Interchangeable)	Rs. 130.00 crore	[ICRA]A+ (stable) / [ICRA]A1+ reaffirmed
Commercial Paper	Rs. 60.00 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) assigned to the fund based limits and non-fund based limits of Deepak Nitrite Limited (DNL) aggregating to Rs. 740.00 crore[†]. The long-term rating has a stable outlook. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ assigned to the Commercial Paper programme of DNL aggregating to Rs. 60.00 crore.

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 scale up in revenues driven by successful introduction of new products; the company's cash accruals too have increased over the last three years on account of the improvement in profitability levels and sales.

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 has been increasing on quarterly basis, the production levels remain lower than initial estimates as OBA, being a performance chemical, requires a longer validation cycle in foreign markets. ICRA notes that the scale up of operations of OBA facility at Dahej so as to achieve the budgeted profitability remains important as the debt repayment obligations for the project are sizeable over next 2-3 years, though the company's cash flows from its other businesses remain healthy and provide comfort.

The ratings are further 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 company's working capital intensity has also increased in the last two fiscals which, coupled with weaker cash accruals from the OBA business, has led to higher working capital borrowings.

The ratings take into account the large size phenol and acetone project being undertaken by the company's subsidiary, Deepak Phenolics Ltd ([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 December 2017, as well as funding risks with about 30% of the project equity to be brought in through QIP (Qualified Institutional Placement) issue by DNL and additional 25% of the project equity expected from external investor participation in Deepak Phenolics Ltd; the required project debt has however been tied-up. 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.

* 100 lakh = 1 crore = 10 million

† 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 for the manufacture of import substitute chemicals - Sodium Nitrite and Sodium Nitrate. DNL, which began as a fully indigenous sodium nitrite and sodium nitrate manufacturer in Nandesari, Gujarat, has attained global presence in over 20 countries. Currently, DNL is engaged in the production of Organic Intermediates, Inorganic Intermediates and Fine & Specialty Chemicals across four locations namely Vadodara 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 has fully commissioned its OBA manufacturing plant at Dahej (Gujarat) in May 2014. It has also expanded its manufacturing capacity for Inorganic Intermediates at Nandesari (Gujarat). It is setting up a greenfield project at Dahej for manufacturing of phenol and acetone at a project cost of Rs. 1,200 crore through a subsidiary.

For FY2015, the company reported Profit after Tax (PAT) of Rs. 53.44 crore on an operating income of Rs. 1321.95 crore. For 6m-FY2016, the company has reported PAT of Rs. 28.13 crore on an operating income of Rs. 676.30 crore (unaudited).

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