

Alkali Metals Limited

March 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	0.81	0.00	-
Fund based- Working Capital Facilities	18.00	18.00	[ICRA]BB(Stable) reaffirmed
Non-fund based limits	8.50	8.50	[ICRA]A4 reaffirmed
Unallocated Limits	14.69	15.50	[ICRA]BB(Stable)/[ICRA]A4 reaffirmed
Total	42.00	42.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) assigned to the Rs. 18.00 crore¹ fund-based working capital limits of Alkali Metals Limited (AML or the company)². ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 8.50 crore non fund based limits and reaffirmed the ratings of [ICRA]BB/[ICRA]A4 assigned to the Rs 15.50 crore unallocated limits of AML. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of ratings factors in the diversified product portfolio of the company with presence in sodium derivatives, amino pyridines and fine chemicals; long track record of the company in manufacturing of sodium derivatives; and moderate customer concentration risk with top 5 customers contributing to 36% and 37% of total sales in FY2017 and 9MFY2018 respectively. The ratings also consider the comfortable financial risk profile with gearing of 0.35 times as on December 31, 2017 and interest coverage of 2.82 times and NCA/TD of 21% for 9MFY2018. The ratings, however are constrained by modest scale of operations with revenues of Rs 58.06 crore for FY2017; low capacity utilization of manufacturing facility impacting business returns in the last few years; and decline in operating income by 21% to Rs 58.06 crore in FY2017 and further decline to Rs 42.76 crore in 9MFY2018 owing to drop in sales of sodium derivatives, amino pyridines and fine chemicals. The ratings are also constrained by the weak liquidity position of the company as reflected by high utilization of cash credit limits in the past 12 months owing to high inventory levels; delay in ramp up of revenues from Metformin due to delay in getting international approvals and exposure of profitability to foreign exchange fluctuations as exports contributes to significant portion of total sales and to volatility in raw material prices.

Outlook: Stable

The stable outlook reflects ICRA belief that Alkali Metals Limited will continue to benefit from the extensive experience of its promoters in the chemical industry. The outlook may be revised to 'Positive' if there is substantial growth in revenues and if liquidity position improves. The outlook may be revised to 'Negative' if there is decline in revenues, operating margins and further weakening of liquidity position.

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

Key rating drivers

Credit strengths

Diverse product portfolio and long track record in manufacturing of sodium derivatives: AML manufactures products across four categories: Sodium derivatives, pyridine derivatives, fine chemicals and Active Pharmaceutical Ingredients (APIs). More than 80% of the company's sales are derived from pharmaceutical customers, while remaining from agrochemical and other industries. AML has a strong market position in manufacturing of sodium derivatives such as sodium amide, sodium azide, and sodium hydride with a track record of more than two decades. Sodium derivatives account for around 66% and 77% of overall sales in FY2017 and 9MFY2018 respectively.

Moderate customer concentration risk: The company has both domestic and export customers and proportion of sales from exports has been consistent over the last two years at around 50%. The customer concentration remained moderate with its top five customers accounting for 36% and 37% of overall sales in FY2017 and 9MFY2018 respectively indicating moderate customer concentration risk.

Healthy capital structure and coverage indicators: The capital structure of the company is comfortable with gearing of 0.35 times as on December 31, 2017 and coverage indicators are moderate with interest coverage of 2.82 times and NCA/TD of 21% for 9MFY2018.

Credit weaknesses

Weak liquidity position: The liquidity position is weak as reflected by high utilization of working capital limits on account of high inventory levels owing to high work in progress

Low capacity utilization with decline in operating income: The capacity utilization has remained low at 25% for FY2017 and 20% for 9MFY2018 owing to higher competition. Further, the operating income declined by 21% to Rs 58.06 crore in FY2017 and to Rs 42.76 crore in 9MFY2018 owing to drop in sales of sodium derivatives, amino pyridines and fine chemicals.

Delay in ramp up of revenues from Metformin sales: The Metformin (API) facility began its operation in FY2015, with capacity utilization being significantly low in the past 3 years due to delay in getting international approvals impacting business returns

Exposure of profitability to foreign exchange fluctuations: More than 50% of the raw materials (in value terms) are imported, out of which the main raw materials are sodium metal and pyridine. The proportion of sales from exports has been consistent over the last two years at around 50% and imports act as natural hedge against forex fluctuations with significant revenues accounted by exports.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology For Entities in the Chemical Industry](#)

About the company:

Alkali Metals Limited (AML) was set up in 1968 as a joint venture with Andhra Pradesh Industrial Development Corporation Limited (APIDC). Initially, the company produced sodium metal, but 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. AML's products can be classified as sodium derivatives,

amino-pyridines, fine chemicals and Active Pharmaceutical Ingredients (APIs) such as Metformin. Its products are sold primarily to pharmaceutical companies for further processing and conversion into bulk drugs.

Key Financial Indicators

	FY2016	FY2017	9MFY2018
Operating Income (Rs. crore)	73.28	58.06	42.76
PAT (Rs. crore)	2.26	0.35	0.87
OPBDIT/ OI (%)	13.54%	11.82%	11.73%
RoCE (%)	8.77%	4.70%	5.30%
Total Debt/ TNW (times)	0.39	0.41	0.35
Total Debt/ OPBDIT (times)	1.95	2.94	2.62
Interest coverage (times)	2.89	2.44	2.82
NWC/ OI (%)	19.55%	30.62%	32.81%

Source: Annual Reports and ICRA Research

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				March 2018	December 2016	December 2015	January 2015	
1 Fund Based – Cash Credit Limits	Long Term	18.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	
2 Non Fund Based Limits	Short Term	8.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
3 Unallocated Limits	Long Term/Short Term	15.50	-	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	[ICRA]BB (Stable)/A4	[ICRA]BB- (Stable)/A4	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				18.00	[ICRA]BB (Stable)
NA	Non fund based limits				8.50	[ICRA]A4
NA	Unallocated limits				15.50	[ICRA]BB (Stable)/ [ICRA]A4

Source: Alkali Metals Limited

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