

Alkali Metals Limited

September 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	18.00	18.00	[ICRA]BB(Stable) reaffirmed
Non-fund based limits	8.50	8.50	[ICRA]A4+ upgraded from [ICRA]A4
Unallocated Limits	15.50	15.50	[ICRA]BB(Stable) reaffirmed / [ICRA]A4+ upgraded from [ICRA]A4
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 upgraded the short-term rating assigned to the Rs 8.50 crore non-fund based limits of AML to [ICRA]A4+(pronounced ICRA A four plus) from [ICRA]A4 (pronounced ICRA A four) and reaffirmed the long term rating of [ICRA]BB and upgraded the short term rating to [ICRA]A4+ from [ICRA]A4 assigned to the Rs 15.50 crore unallocated limits of AML. The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade positively factors in increase in operating income by 13% to Rs 65.3 crore in FY2018 from Rs 58.1 crore in FY2017 owing to increase in sales from sodium derivatives, fine chemicals and API's despite decline in sales from amino Pyridines; and improved financial risk profile with gearing of 0.36 times as on March 31, 2018, interest coverage of 2.70 times and NCA/TD of 25% for FY2018. The ratings also 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 32% of total revenues in FY2018. The ratings are however constrained by low capacity utilization of manufacturing facilities resulting in modest scale of operations; and 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. The ratings are also constrained by delay in ramp up of revenues from Metformin API (Active Pharmaceutical Ingredients) facility due to pending 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 improvement in operating margins and liquidity position. 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 with long track record in manufacturing of sodium derivatives: AML manufactures products across four categories: Sodium derivatives, pyridine derivatives, fine chemicals and pharmaceutical APIs. More than 80% of the company's sales are derived from pharmaceutical customers, while remaining 20% 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 67% and 48% of overall sales in FY2018 and Q1FY2019 respectively.

Revenue growth in FY2018 with comfortable capital structure and healthy coverage indicators: The operating income increased by 13% to Rs 65.3 crore in FY2018 from Rs 58.1 crore in FY2017 owing to increase in sales from sodium derivatives, fine chemicals and API's despite decline in sales from amino Pyridines. The capital structure of the company is comfortable with gearing of 0.36 times as on March 31,2018 owing to low debt levels with the debt being primarily working capital in nature. The coverage indicators are moderate with interest coverage of 2.70 times and NCA/TD of 25% for FY2018.

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 32% of total sales in FY2018.

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. The inventory days are high as AML maintains buffer inventory to meet the sudden export orders along with long process time given the various stages of manufacturing process.

Low capacity utilization: The overall capacity utilization has remained low at 22% and 18% for FY2018 and Q1FY2019 respectively owing to high competition prevalent in the sodium derivatives. Lower capacity utilization resulted in modest revenues over the years with operating income of Rs 65.32 crore and Rs 16.21 crore for FY2018 and Q1FY2019 respectively.

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. The revenue contribution from API facility has been low at Rs 17.29 crore for FY2018 and accounted for 26% of revenues in FY2018.

Exposure of profitability to foreign exchange fluctuations: More than 50% of the raw materials (in value terms) are imported with main raw materials imported being 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

	FY2017	FY2018	Q1FY2019*
Operating Income (Rs. crore)	58.06	65.32	16.21
PAT (Rs. crore)	0.35	1.31	0.34
OPBDIT/ OI (%)	11.80%	10.42%	11.28%
RoCE (%)	4.90%	5.65%	6.71%
Total Debt/ TNW (times)	0.41	0.36	0.35
Total Debt/ OPBDIT (times)	2.97	2.66	2.45
Interest coverage (times)	2.31	2.70	2.33
NWC/ OI (%)	31.84%	26.43%	24.54%

*Unaudited; 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 (FY2019)			Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Sep 2018	Date & Rating in FY2018 Mar 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Dec 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 limits				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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