

## Industrial Solvents & Chemicals Private Limited

November 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	26.84	8.00	[ICRA]A+ (Stable); Reaffirmed
Fund Based Limits	75.00	70.00	[ICRA]A+ (Stable)/ [ICRA]A1+; Long-term rating reaffirmed and short-term rating upgraded from [ICRA]A1
Non-Fund Based Limits	62.00	17.80	[ICRA]A1+; upgraded from [ICRA]A1
<b>Total</b>	<b>163.84</b>	<b>95.80</b>	

\*Instrument details in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and upgraded the short-term rating to [ICRA]A1+ (pronounced ICRA A one plus) from [ICRA]A1 (pronounced ICRA A one) on the bank limits of Industrial Solvents & Chemicals Private Limited (ISCPL) aggregating to Rs. 95.80 crore<sup>12</sup>. The outlook on the long-term rating is 'Stable'.

### Rationale

The upgrade in the short-term rating factors in the improvement in the company's liquidity profile characterised by healthy cash flows from operations, sizeable cash and liquid investments of Rs. 101.9 crore as of September 30, 2018 and moderate utilisation of working capital bank limits. The company's liquidity position is further supported by limited long-term debt repayment obligations in the near term with the existing long-term debt to be entirely repaid by May 2019.

The ratings also take into account the healthy demand indicators for ISCPL's products along with its continuing leadership position as one of the largest manufacturers of Di-methyl Sulphate (DMS) and Di-ethyl Sulphate (DES). The ratings factor in the company's robust financial profile characterised by healthy profitability levels, comfortable capital structure and healthy debt coverage indicators. The ratings continue to take into account the company's diversified customer base, long track record of the company's promoters in the chemicals manufacturing business and the strong competitive advantage enjoyed by the company owing to its multi-product facility and high barriers to entry in its line of business operations.

The ratings are, however, constrained by the exposure of the company's profitability to adverse fluctuations in raw material prices and high working capital intensity of operations. The ratings also take into account the high product concentration risk with a single product (viz. DMS) accounting for over one-third of the company's overall sales, though the risk is mitigated to a considerable extent owing to presence of limited suppliers for the product globally and the company's strong market position as a leading supplier of the said product. The ratings further take into account the susceptibility of operations to cyclicalities witnessed in the chemicals industry.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

ICRA notes that the company has currently slowed down on its erstwhile sizeable capex plans in inorganic and organic chemicals through a subsidiary company, Isc Chemspec LLP (51% ownership), and any material development on the same would be a rating sensitivity.

## Outlook: Stable

ICRA believes ISCPL will continue to benefit from its established position in the DMS and DES global and domestic markets. The outlook may be revised to 'Positive' if there is a material increase in the company's scale of operations and cash accruals. The outlook may be revised to 'Negative' if the company faces any significant weakening in its profitability levels given the rising crude prices and volatility in raw material prices or if it undertakes any large-scale debt-funded project.

## Key rating drivers

### Credit strengths

**Long track record of the promoters in the chemicals manufacturing business; leading position as one of the largest global DES and DMS manufacturer** - Incorporated in 1959 by Mr. Virendra P. Shah, the company has been in the business of manufacturing various organic and inorganic chemicals such as DMS, DES, alkylated anilines, sulphuric acid, and ethers. Over the years, the company has built strong in-house technical capabilities that provides it with a competitive advantage over other players. The company enjoys a dominant market share in the DMS and DES markets, both domestic and global.

**High barriers to entry in the form of large capital requirements and highly hazardous nature of products** - The competitive pressure in the industry remains moderate as there are limited suppliers of such products globally mainly due to the high capex involved with setting up of production plants. Also, such products are hazardous in nature and require excessive caution in production and handling which acts as an entry barrier.

**Diversified customer base** - The company's customers in the export market mainly include surfactant manufacturers while domestic customers are primarily players in the dyes, pigments, and pharmaceuticals sectors. The company's customer base is highly diversified with the top five export and domestic customers, each accounting for ~15% of the total sales.

**Healthy financial risk profile** - ISCPL has maintained its profit margins at healthy levels in recent years owing to its leading position in the DMS and DES market. The company's borrowing levels remain limited, with the long-term debt to be entirely repaid by May 2019, thus leading to a comfortable capital structure and debt coverage metrics. The company's liquidity profile is healthy characterised by healthy cash flows from operations, sizeable cash and liquid investments (of Rs. 101.9 crore as of September 30, 2018) and moderate utilisation of working capital bank limits.

### Credit weaknesses

**High product concentration** - The company's key product, DMS, accounts for ~33% of its total sales, and thus the company is exposed to the demand risks associated with the product. However, DMS finds applications in multiple industries. Also, the concentration risk is alleviated to an extent given the company's leading position in the global DMS market.

**Profitability exposed to volatility in raw material prices and movement in forex rates** – While the company is able to pass on a part of increase in its raw material prices to its customers, its profitability remains exposed to any adverse fluctuations in the raw material prices, especially in cases where the company has fixed price quarterly contracts with its overseas suppliers.

**Operations susceptible to cyclicity in chemicals industry** - The chemicals industry is closely linked to the overall pace of industrial activity and economic growth in a market. ISPL's operations are therefore exposed to the cyclical peaks and troughs in the domestic and global markets.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Incorporated by Mr. Virendra P. Shah in 1959, Industrial Solvents & Chemicals Private Limited (ISPL) commenced operations with trading of chemicals and pharmaceuticals. Subsequently, the company ventured into manufacturing of various organic and inorganic chemicals such as Dimethyl Sulphate (DMS), Diethyl Sulphate (DES), Alkylated Anilines, Sulphuric Acid, and ethers. The company's manufacturing facility is located at Ankleshwar, Gujarat. The company has a subsidiary (51% ownership), Isc Chemspec, which is planning to set up a greenfield project in Dahej, Gujarat.

### Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	403.7	468.4
PAT (Rs. crore)	58.5	63.6
OPBDIT/ OI (%)	24.2%	22.6%
RoCE (%)	35.6%	32.7%
Total Debt/ TNW (times)	0.4	0.2
Total Debt/ OPBDIT (times)	0.8	0.6
Interest coverage (times)	21.4	17.6

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: Not applicable**

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Nov 2018	Sep 2017	Oct 2016	Dec 2015	
1 Term Loans	Long-Term	8.00	8.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	
2 Fund Based Limits	Long-Term/Short-Term	70.00	-	[ICRA]A+ (Stable)/[ICRA]A1+	[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Stable)/[ICRA]A2+	
3 Non-Fund Based Limits	Short-Term	17.80	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+	

Source: ISCP

### 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](http://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	Term Loans	FY2015	-	FY2020	8.00	[ICRA]A+ (Stable)
NA	Fund Based Limits	-	-	-	70.00	[ICRA]A+ (Stable)/ [ICRA]A1+
NA	Non-Fund Based Limits	-	-	-	17.80	[ICRA]A1+

Source: Industrial Solvents & Chemicals Private Limited

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Abhishek Dafria**

+91 22 6169 3344

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Anubha Rustagi**

+91 22 6169 3341

[anubha.rustagi@icraindia.com](mailto:anubha.rustagi@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents