

August 22, 2019

## Deepak Nitrite Limited: Long-term rating upgraded from [ICRA]A+ to [ICRA]AA-; short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	277.00	277.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive)
Fund based limits	300.00	300.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive)
Non-fund based limits	170.00	170.00	[ICRA]A1+; Reaffirmed
Fund & Non-Fund Based Limits (Interchangeable)	200.00	200.00	[ICRA]AA- (Stable)Upgraded from [ICRA]A+ (Positive);/[ICRA]A1+ Reaffirmed
Commercial Paper	200.00	200.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>1,147.00</b>	<b>1,147.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade takes into account the improvement in the financial profile of Deepak Nitrite Limited (DNL) characterised by improvement in returns and debt coverage indicators in FY2019 and Q1 FY2020. ICRA notes that this improvement over the last 12-18 months has been aided by sustained healthy performance in its erstwhile profitable business segments as well as a strong turnaround in its Performance Products segment. Further, the upgrade also takes into account the stabilisation of operations at the company's phenol and acetone greenfield project under its wholly-owned subsidiary, Deepak Phenolics Limited (DPL; [ICRA]A- (Stable)/ [ICRA]A2+), which was commissioned in November 2018. The healthy ramp up of operations seen in the initial months is expected to translate into steady revenue growth and cash accruals for DNL on a consolidated basis.

The rating continues to take 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. ICRA notes the leading market position enjoyed by the company in most of its product segments across domestic as well as global markets. The rating continues to factor DNL's multi-purpose manufacturing facility with significant backward and forward integration linkages that provide flexibility over the product mix to suit changing market requirements. ICRA also notes DNL's technical expertise to handle complex and hazardous chemical processes like nitration, hydrogenation and diazotisation.

The rating is, however, 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 rating also considers the capex of ~Rs. 340 crore for brownfield expansion projects of DNL and DPL, planned over the current and next fiscals. With part of this capex to be debt-funded, the borrowing levels at a consolidated level could remain high. However, healthy profitability and cash accruals are expected to help maintain the debt coverage metrics at sound levels.

## Outlook: Stable

ICRA expects DNL to continue to benefit from its leading presence in the domestic and global markets for bulk and speciality chemicals. The outlook could be revised to Positive if the company is able to sustain healthy revenue growth and profit margins, resulting in material deleveraging of its consolidated balance sheet and improvement in return metrics. The outlook may be revised to Negative if the company faces material weakening in its profitability owing to movements in product prices and/or raw material costs or undertakes any sizeable capex that delays the expected improvement in leveraging and coverage indicators.

## Key rating drivers

### Credit strengths

**Long operating history and established track record in the global chemical intermediates industry** - DNL has been manufacturing chemicals for nearly five decades. Over the years, the company has grown to become a market leader in the domestic market for inorganic intermediates (sodium nitrite), nitro toluenes and fuel additives. It is also among the top three global players for xylidines, cumidines and oximes.

**Diversified product profile mitigating the risk associated with cyclicity in different product segments** - While the company started with a limited portfolio of low-value bulk chemicals like sodium nitrite and sodium nitrate, it has grown its product portfolio to include high-value speciality chemicals for multiple end-user applications. Currently, it sells 15-20 different chemical products to end-user industries. The company has also added pharma intermediaries and more agro-chemical products to its portfolio over the years. The regular introduction of new products has helped DNL to diversify the risk related to a particular product segment.

**Multi-purpose manufacturing facility, with significant backward and forward integration linkages** - The company's production facilities include processes that allow vertical integration for most products, leading to significant cost savings. Also, its facilities are designed to provide flexibility to change the product mix to suit market requirements.

**Improvement in financial profile driven by increasing scale of operations and cash accruals** - DNL has reported a significant revenue growth and improvement in operating profitability in FY2019, driven by a healthy performance across all its product segments and a turnaround in OBA operations. Further, a healthy revenue and cash flow generation from DPL's recently commissioned project would also lead to an increase in the scale of operations for DNL on a consolidated basis.

### Credit challenges

**Profitability exposed to volatility in raw material prices, though the same is reduced in certain products through formula-linked price contracts** - Prices of most of the company's key products are linked to the movement in crude oil prices. The change in price levels, however, varies across product categories and is not commensurate with the change in crude price due to formula-linked pricing. Also, the prices of certain key products, such as sodium nitrite, TFMAP, OBA and DASDA, which currently form about 75% of the company's sales, are delinked with movement in crude oil prices.

**Moderate project risks; high borrowing at consolidated level** - DNL's borrowings at a consolidated level remain high owing to a debt of Rs. 840 crore on the books of DPL, which was raised to fund the phenol/acetone project. Further, the company has a planned capex of ~Rs. 340 crore for the brownfield expansion projects of DNL and DPL, which is expected

to fund the same partly through debt. ICRA notes the track record of DNL in completing its projects in a successful manner. Despite being modest in size, the projects are exposed to risks of any potential time or cost overruns.

### Liquidity position

The company's cash flow position improved in FY2019 vis-à-vis FY2018 with increase in operating profits and reduction in working capital intensity. Going ahead, the company's liquidity profile will remain healthy supported by steady cash accruals and adequate working capital limits from the bank. Also, the company has met its entire equity commitment towards its phenol project, which frees up its future cash flows. DNL also has a sanctioned term loan facility of Rs. 250 crore (Rs. 100 crore outstanding as of March 31, 2019), which further supports the company's liquidity profile.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Entities in the Chemical Industry</a>
Parent/Group Support	Not Applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Deepak Nitrite Limited. As on March 31, 2019, the company had two wholly-owned subsidiaries that are enlisted in Annexure-2.

### About the company:

Deepak Nitrite Limited (DNL) is the flagship of the Deepak Group, which was incorporated in 1970 by Mr. C.K. Mehta. It began as a fully indigenous sodium nitrite and sodium nitrate manufacturer, before gradually widening its product portfolio over the years. Currently, DNL enjoys 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, as well as in Hyderabad. DNL's growth has also been aided by strategic acquisitions of companies with complementary product lines. In November 2018, the company commissioned its phenol and acetone manufacturing plant at Dahej at a project cost of ~Rs. 1,400 crore through its wholly-owned subsidiary, Deepak Phenolics Limited. DNL infused equity of Rs. 560 crore in the project, 50% of which was in the form of non-cumulative optionally convertible redeemable preference shares.

### Key financial indicators (Consolidated - audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,651.5	2,699.9
PAT (Rs. crore)	79.0	173.7
OPBDIT/OI (%)	12.2%	15.8%
RoCE (%)	15.5%	21.7%
Total Debt/TNW (times)	1.1	1.1
Total Debt/OPBDIT (times)	4.9	2.8
Interest coverage (times)	4.5	4.9

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

**Any other information: None**

**Rating history for last three years:**

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017	
				Aug 2019	Mar 2019	Oct 2018	Jan 2018	Mar 2017	Dec 2016	
1 Fund Based Limits - Cash Credit	Long Term	300.00	NA	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Term Loan	Long Term	277.00	112.79	[ICRA]A A- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Fund Based/ Non-Fund Based Limits (Interchangeable)	Long Term & Short Term	200.00	NA	[ICRA]A A- (Stable)/ [ICRA]A1 +	[ICRA]A+ (Positive)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +
4 Non-Fund Based Limits - LC, BG	Short Term	170.00	NA	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +
5 Commercial Paper	Short Term	200.00	NA	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +

**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 Loan	FY2015	NA	FY2026	277.00	[ICRA]AA- (Stable)
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	-	-	-	170.00	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	200.00	[ICRA]A1+
NA	Fund Based/ Non-fund Based Limits (Interchangeable)	-	-	-	200.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Deepak Nitrite Limited

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Deepak Phenolics Limited	100.00%	Full consolidation
Deepak Nitrite Corporation Inc., USA	100.00%	Full consolidation

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