March 04, 2022

Archean Chemical Industries Limited: Rating upgraded to [ICRA]BB (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	840.0	840.0	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Total	**840.0**	**840.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the continued improvement in the operational and financial performance of Archean Chemical Industries Limited (ACIL/the company) reflected in a revenue growth of 21.8% in FY2021 and 21.6% in H1 FY2022 along with improved profitability levels. This was driven by increased contribution from the high-margin yielding bromine segment and healthy performance of the industrial salt division. ICRA expects the trend to continue over the medium term, supported by robust demand and healthy realisations for bromine and industrial salt.

The rating also takes into consideration the competitive advantage enjoyed by the company due to its integrated manufacturing plant and access to brine from Rann of Kutch as the raw material. ICRA also notes the long-term offtake agreement with Sojitz Corporation, Japan, for salt offtake and repeat orders from reputed clients that provide comfort to ACIPL's revenue stability.

The rating, however, continues to be constrained by ACIL's leveraged capital structure and its modest coverage indicators. While the company's overall financial risk profile improved in FY2021 and H1 FY2022, it has substantial debt repayment obligations for the NCD issued from India RF which exert pressure on its debt protection metrics. While ICRA notes that the near-term repayment commitment comprises mandatory coupon payments (12%) and the mandatory principal repayment falls due only at the end of the debt tenure of six years in FY2024, any excess cash flows would be used for additional coupon payment earlier (to meet the defined coupon on the debt of 17%) and principal prepayment through the cash-sweep mechanism. The company has exercised the cash-sweep mechanism since September 2021 and has paid Rs. 60 crore in YTD FY2022. ICRA ,however, takes comfort from the debt service reserve account (DSRA) covering mandatory coupon payments for the subsequent six months, created out of the issuance and internal accruals, which will be maintained during the tenure of the loan. In addition, the cross-default clause pertaining to other Archean Group entities has also been removed.

The rating also remains tempered by the exposure of the company's operations to external factors such as excessive rainfall. However, feed enrichment measures in the enhanced bromine capacity and investment in brine fields ensure adequate availability of raw material. In addition, the rating also factors in the exposure of ACIL's profitability to global product prices and forex rates, mitigated to a certain extent by fixed-price contracts and hedging policy adopted by the company.

ICRA notes that ACIL has filed a draft red herring prospectus (DRHP) for an IPO with primary issuance of Rs. 1,000 crore, which is expected to be used to fully redeem the NCD and the remaining for general corporate purpose and capex plans. Any substantial debt reduction, given the said plans of the company, would be a key rating monitorable.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that ACIPL will witness a stable revenue growth across all the three product segments owing to robust domestic and international demand.

Key rating drivers and their description

Credit strengths

Cost advantage from integrated manufacturing plant - ACIPL has an integrated manufacturing plant at Hajipir near Rann of Kutch (Gujarat). The company uses the abundant and unique Rann brine as raw material, which provides it with a cost advantage over other producers. This advantage also creates entry barriers for new market entrants. The company has also taken several steps to improve operational efficiency and reduce costs in the last few years.

Healthy revenue growth and improved profitability – The operating income increased to Rs. 740.8 crore in FY2021 and Rs. 450.5 crore in 6M FY2022 from Rs. 608.2 crore in FY2020 owing to the increased revenue from industrial salt and rising contribution of the bromine segment given the operationalisation of the enhanced capacity. Revenue from the industrial salt segment increased to Rs. 363.8 crore in FY2021 and Rs. 313.1 crore in 6M FY2022 from Rs. 346.9 crore in FY2020 owing to improved realisations. Revenue from the bromine segment increased to Rs. 331.0 crore in FY2021 and Rs. 429.6 crore in 6M FY2022 from Rs. 223.8 crore in FY2020 owing to increased sales volumes. The realisation in the bromine segment increased to Rs. 298/MT in 6M FY2022 from Rs. 265/MT in FY2021. The operating profitability increased to 35.4% in FY2021 and 40.9% 6M FY2022 from 27.0% in FY2020 owing to increase in contribution from the bromine segment and healthy performance of the salt division. The stabilisation of the new bromine facility accompanied with increased demand, improved realisation and addition of new customers in the salt division is expected to drive the company's revenue growth and profitability in FY2022-23.

Marketing arrangements to reduce business risks – The company has a long-term offtake agreement with Sojitz Corporation of Japan for 2 million tonne of industrial salts per annum. The company has also added new customers in recent fiscals offering repeat orders and ensuring sustained revenue contribution from the segment. This provides some revenue stability, given the share of salt in the overall revenue. The marketing of bromine, the other key product, has also been successful, with ACIPL acquiring several new international customers for the product category.

Credit challenges

Highly leveraged capital structure and modest coverage indicators – The company's capital structure is highly leveraged with a gearing 7.0 times as on September 30, 2021 due to low net worth arising from accumulated losses from the past few years. The coverage indicators, although modest, improved in 6M FY2022 and FY2021 due to improved profitability with interest coverage increasing to 2.3 times and 2.0 times in 6M FY2022 and FY2021, respectively, from 1.3 times in FY2020.

Higher interest and principal repayment obligations on NCD– The effective interest rate on the NCDs is high at 17%; however, the mandatory payments are restricted to 10-12% interest rate till FY2025, while the differential interest will be paid along with the mandatory payments based on the cash accruals generated during the initial years as per the cash-sweep agreement, or a redemption premium will be paid at the end of the tenure. The company has exercised the cash-sweep mechanism since September 2021 and has paid Rs. 60 crore in YTD FY2022. The company maintains a debt service reserve account (DSRA) equivalent to mandatory coupon repayments for the subsequent six months. As per the terms of the NCD, the company is required to pay the principal amount of NCD (Rs. 840 crore) along with accrued interest by November 2024.

Operations and margin vulnerable to several external factors– The company's operations are exposed to the risk of excessive rainfall, which can adversely impact the quality of key raw materials as well as lead to an operational stoppage, impacting the scale of production. However, the availability of healthy salt reserves, introduction of feed enrichment section under the new bromine facility and investment in additional brine fields mitigate the risk to a large extent. The margins are also vulnerable to the volatility in global product prices and forex rate movement.

Liquidity position: Adequate

ACIL's liquidity position is adequate, supported by improved operating cash flows. The company also maintains a six months' DSRA for mandatory coupon repayments for the subsequent six months. In addition, the company also plans to avail working capital facilities of ~Rs. 75 crore, which are also expected to support its liquidity position. While immediate payments are restricted to payments towards the mandatory coupon, ACIL has substantial debt repayment obligations in the medium term with the NCD expected to be fully paid by November 2024.

Rating sensitivities

Positive Factors – ICRA could upgrade the rating in case of a substantial reduction in debt which will ease the leverage and coverage indicators. Further, a steady improvement in revenue and profitability, backed by healthy capacity utilisation on a sustainable basis, will improve the coverage indicators and debt protection metrics and support an upward revision of the rating.

Negative Factors – The rating could witness a downgrade if lower-than-expected cash accruals, or a stretch in the working capital cycle puts pressure on the company's liquidity and credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ACIIL (erstwhile Archean Chemical Industries Private Limited), incorporated in July 2009, set up an integrated marine chemicals complex to produce sulphate of potash, industrial salt and bromine. The project was commissioned in June 2015. The manufacturing plant is at Hajipir in the Kutch district of Gujarat. The integrated complex utilises the naturally available brine flowing over the marine mineral deposits at the Rann of Kutch. The Archean Group is already one of the leading producers of industrial salt in the country and through this project it has also become the first domestic manufacturer of SOP. ACIL is part of the Archean Group, which is a conglomerate with businesses across building materials, mining and minerals, industrial chemicals and fertilisers.

Key financial indicators (audited)

ACIL	FY2020	FY2021	6MFY2022
Operating Income (Rs. crore)	608.2	740.8	450.5
PAT (Rs. crore)	-35.7	66.6	58.1
OPBDIT/OI (%)	27.0%	35.4%	40.9%
PAT/OI (%)	-5.9%	9.0%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	176.7	17.7	10.2
Total Debt/OPBDIT (times)	5.5	3.5	2.5
Interest Coverage (times)	1.3	2.0	2.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 04, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
					Mar 04, 2022	Jan 29, 2020	Oct 10, 2019	Dec 07, 2018	Aug 30, 2018	Apr 16, 2018
1	NCD	Long Term	840.00	840.00	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)	Prov [ICRA]B (Stable)	
2	Term Loans	Long Term	-	-				[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D
3	Fund-based facilities	ShortTerm	-	-				[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D
4	Long-term, unallocated facilities	Long Term	-	-				[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - NCD	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE128X07028	NCD	22-Nov-2018	17%	21-Nov-2024	840.00	[ICRA]BB(Stable)

Source: *Company*

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

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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

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