January 29, 2021

Archean Chemical Industries Private Limited: Ratings 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]B+ (Stable)
Total	**840.0**	**840.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade considers the improvement in the scale of operations and profitability of Archean Chemical Industries Private Limited (ACIPL or 'the company') and the completion of the capex for expanding its Bromine production capacity, which is expected to drive the revenue and profitability growth. The company witnessed sustained improvement in revenue and profitability in the recent fiscals, post the debt restructuring and subsequent fund infusion by India RF (joint venture between Bain Capital Credit and Piramal Enterprises Limited) in FY2019 and early FY2020, backed by increased offtake from existing customers and addition of new customers, especially in its industrial salt segment. However, despite revenue growth and OPM expansion, the net margin remained constrained in FY2020 due to forex losses and high interest expenses. The revenue growth during FY2020 was also partly impacted by delay in Bromine plant expansion and disruption in sales in the month of March due to the Covid-19 pandemic related containment measures. However, despite the Covid-19 pandemic, the company is expected to witness healthy revenue growth and margin improvement in FY2021, supported by favourable Bromine prices in the current fiscal and increased Bromine sale due to the commencement of the new Bromine facility, although there was delay in project completion due to the pandemic related disruption. The rating also notes the cost advantage provided by an integrated manufacturing plant and access to Rann brine as raw material and other measures taken by the company for improving operational efficiency, hedging policy and better cost control. ICRA also notes the long-term offtake agreement with Sojitz Corporation, Japan, for salt offtake and repeat orders from reputed clients that provides comfort for ACIPL's revenue stability.

Nonetheless, the rating remains constrained by the highly leveraged capital structure and stretched coverage indicators owing to low net worth arising from accumulated past losses, susceptibility of operations to excessive rainfall, vulnerability of margin to volatility in global product prices and high effective interest rate on the NCDs. ICRA notes that while the near-term repayment commitment comprise mandatory coupon payments (10-12%), the mandatory principal repayment falls due only at the end of the debt tenure of six years. Any excess cash flows would be applied towards additional coupon payment earlier (to meet the defined coupon on the debt of 17%) and towards principal prepayment. ICRA also takes comfort from the debt service reserve account (DSRA) created out of the issuance and internal accruals, which will be maintained during the tenure of the loan. However, given the high effective coupon rate of the loans, it will be crucial for the company to stabilise the operations of the new Bromine facility and improve its scale and profitability substantially to improve its liquidity profile and meet its repayment obligations. Further, any partial refinancing of high-cost debt with lower cost facility will also be favourable and is a key monitorable.

ICRA also notes that there have been some instances of breach of covenants as well as cross default related to group entities, although ACIPL has been regular in debt servicing. However, ICRA notes that the investor (India RF) has not imposed any penal measure due to the covenant breaches, as it was considered to be on account of the Covid-19 pandemic. Further, the investors have also not accelerated the payments for ACIPL due to the cross default or taken any other penal measures and the cross-default clause is likely to be removed as per their submission to ICRA. Nonetheless, any negative development in this regard will be a rating sensitivity factor.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that ACIPL will witness further revenue growth across all the three product segments owing to robust domestic and international demand. ICRA also expects ACIPL's profitability to improve with the increase in the share of the higher margin Bromine due to the commencement of the new facility in the current fiscal.

Key rating drivers and their description

Credit strengths

Fund infusion by India RF – ACIPL raised Rs. 840 crore by issuing NCD to India RF in FY2019 and H1 FY2020 in three tranches. The company utilised the funds for refinancing the erstwhile bank loans, working capital funding and capex for Bromine expansion. The refinancing has reduced the near to medium term repayment obligations, as the mandatory coupon payment is moderate (10-12%) and the mandatory principal repayment falls due at the end of the debt tenure of six years. However, any excess cash flows would be applied towards additional coupon payment earlier (to meet the defined coupon on the debt of 17%) and towards principal prepayment.

Healthy sales growth in recent fiscals; diversified product portfolio – ACIPL manufactures industrial salt, Bromine and sulphate of potash (SOP) at its integrated marine chemicals facility. Post the debt restructuring and subsequent refinancing of the bank loan, the company witnessed healthy revenue growth with a CAGR of ~40% during FY2017-FY2019 supported by healthy capacity utilisation, improvement in sales realisation and sales volume backed by healthy demand from existing and new customers. In FY2020, the company witnessed further revenue growth of 7.5% primarily on the back of increase in salt sales backed by increased off take from existing customers. However, revenue growth in FY2020 was impacted by delay in completion of Bromine expansion capex and sales in March being impacted by the Covid-19 pandemic related measures. The Bromine expansion was delayed by the Covid-19 pandemic and was subsequently completed by August 2020. The timely stabilisation of operations of the new facility is crucial for improving ACIPL's financial profile. The company has continued to witness healthy revenue during H1 FY2021 despite the pandemic, aided by favourable demand and healthy realisation for Bromine and for the full year, revenue growth and margin improvement are expected due to the capacity expansion.

Integrated manufacturing plant provides cost advantages in manufacturing process – ACIPL's integrated manufacturing plant is located at Hajipir near the 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 last few years. Further, the company had appointed internal auditors to strengthen control systems and adopted risk management measures including hedging policy to mitigate forex risks.

Marketing arrangements in place likely to reduce business risks to a large extent – 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 ensuring sustained revenue contribution from the segment. This provides some revenue stability, given the share of salt in the overall revenue pie. 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

Financial profile characterised by highly leveraged capital structure and stressed coverage indicators – The company's capital structure is highly leveraged with a gearing 19.8 times as on March 31, 2020 due to low net worth arising from accumulated losses from the past few years. The coverage indicators, although stretched, witnessed improvement in FY2020 due to improvement in profitability with interest coverage increasing to 1.4 times in FY2020 compared to 0.6 time in FY2019 and TD/OPBDITA declining to 5.2 times in FY2020 from 10.3 times in FY2019.

Higher interest cost on NCDs – 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 mandatory payments based on 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. Therefore, the company's ability to generate healthy cash accruals to meet repayment obligations remains crucial and will be dependent on the timely stabilisation of operations at the new Bromine facility.

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, availability of healthy salt reserves and introduction of feed enrichment section under the new Bromine facility is expected to partly mitigate the risk. The margins are also vulnerable to volatility in global product prices and forex rate movement.

Liquidity position: Stretched

ACIPL's liquidity profile is stretched due to moderate profit margins, high interest obligations, and moderately high working capital intensity. In FY2021, despite the impact of Covid-19, the cash flows are expected to witness improvement aided by commencement of Bromine unit expansion. Further, the company has created six months' DSRA from the NCD proceeds and internal accruals, which supports near-term liquidity. ACIPL also plans to avail working capital facilities of ~Rs. 75 crore at lower interest rates (allowed under the terms of NCD), which will also support the liquidity position. However, the same is yet to be tied up. Going forward, stabilisation of the new manufacturing facility and improvement in scale and profitability will be crucial for the improvement in the liquidity profile.

Rating sensitivities

Positive factors – Strong improvement in revenue and profitability, backed by healthy capacity utilisation, on a sustainable basis leading to improvement in coverage indicators and debt protection metrices could lead to a rating upgrade.

Negative factors – The rating could witness a downgrade if lower than expected cash accruals, delays in stabilisation of the Bromine plant or a stretch in working capital cycle puts pressure on its 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	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in July 2009, ACIPL set up an integrated marine chemicals complex for producing 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. ACIPL 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

	FY2019 (audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	565.5	608.2
PAT (Rs. crore)	41.1	0.2
OPBDIT/OI (%)	13.0%	27.3%
RoCE (%)	16.2%	13.9%
Total Outside Liabilities/Tangible Net Worth (times)	25.4	30.3
Total Debt/OPBDIT (times)	10.3	5.2
Interest Coverage (times)	0.6	1.4
DSCR (times)	0.2	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2017
					Jan 29, 2020	Oct 10, 2019	Dec 07, 2018	Aug 30, 2018	Apr 16, 2018	Nov 29, 2016
1	NCD	Long Term	840.00	840.00	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B (Stable)	Provisional [ICRA]B (Stable)		
2	Term Loans	Long Term	240.25	0.00	-	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D
3	Fund-based facilities	Short Term	53.41	0.00	-	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D
4	Long-term, unallocated facilities	Long Term	404.34	0.00	-	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D	

&= Under watch with developing implications

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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 – Not applicable

ANALYST CONTACTS

K. Ravichandran
·044 4596 4301
ravichandran@icraindia.com

Sai Krishna
044 4596 4304
sai.krishna@icraindia.com

R. Gopikrishnan
044 4297 4335
r.gopikrishnan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

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

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches