archean

Archean Chemical Industries Private Limited

15th November 2019

BSE Limited
Listing Operations
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai 400 001

Dear Sirs,

Sub: Credit Rating certificate by Credit Rating Agency - Regulation 55 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015

Ref: Scrip Code 958408 – Privately placed Debt Securities (NCDs) Rs.739.70 crores allotted in November 2018, Rs. 40.30 crores allotted in May 2019 and Rs. 60.00 cores allotted in July 2019 aggregating to Rs.840 crores - ISIN INE128X07028

Pursuant to regulation 55 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we wish to inform you that our credit rating is revised from ICRA B to ICRA B+ and a copy of the Credit Rating Certificate dated 1st October 2019 obtained from ICRA Limited is attached for your records.

Thanking you,

Yours faithfully,
For Archean Chemical Industries Private Limited

G. Balaji
Company Secretary

Encl.: As above.

Regd. & Corp. Office : No. 20/43, K.B. Dasan Road, Teynampet, Chennai 600 018. Ph: +91 44 40055555
E-mail : info@archeangroup.com www.archeangroup.com
CIN : U24298TN2009PTC072270 GSTIN : 33AAHCA8471D2ZS

October 01, 2019

Archean Chemicals Industries Private Limited: Rating Upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	840.00	840.00	[ICRA]B+(Stable); upgraded from [ICRA]B (Stable)

**Instrument details are provided in Annexure-1*

Rationale

The revision in rating considers the improvement in operational profile of Archean Chemicals Industries Private Limited (ACIPL or 'the company') due to improvement in capacity utilisation post fund infusion by India RF (joint venture between Bain capital Credit and Piramal Enterprises Limited) in FY2019 and in current fiscal, in the form of NCDs. The funding has been used for refinancing of earlier bank debt, which has reduced near term payment commitments 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. ICRA also takes comfort from the debt service reserve account (DSRA) created out of the issuance and which will be maintained during the tenure of the loan. ICRA takes note of the improvement in revenue and operating margin during FY2019 backed by growth in sales volume of industrial salt and improvement in bromine realisation. However, the profit margin was adversely impacted by large inventory write off and provision for bad debts, partly offset by write offs of some interest liabilities to erstwhile lenders and promoters. The ratings also the cost advantage provided by integrated manufacturing plant and access to Rann brine as raw material. Further, ICRA also takes note of steps taken by company to control costs and improve operational efficiency, including appointment of reputed consultants for the same, appointment of internal auditors and adoption of hedging policy to mitigate forex risks. The company is also in advance stages of implementation of bromine capacity expansion, funded by the proceeds from NCD, which is expected to be completed in Q4 FY2020. ICRA also takes note of the long-term offtake agreement with Sojitz Corporation of Japan for salt offtake provides comfort with regards to ACIPL's revenue stability.

Nonetheless, the ratings remain constrained on account of 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. It will be crucial for the company to complete the expansion project on time and improve its scale and profitability substantially to improve its liquidity profile and meet its repayment obligations.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that ACIPL will witness healthy sales growth across all the three product segments owing to robust domestic and international demand and expect profitability to witness improvement due to increase in share of higher margin bromine segment, post completion of expansion project in 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 utilized the funds for refinancing the erstwhile bank loans, working capital funding and ongoing 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. In FY2019, the company witnessed the healthy revenue growth of 29% supported by healthy growth in sales volume and realisaton for industrial salt segment backed by healthy demand from Sojitzs and new customers and strong improvement in sales realisation of bromine due too strong international demand. The company is currently undertaking expansion of bromine capacity, which is expected to be operational by Q4 FY2020. The timely completion or project and stabilization of operations will be crucial for improvement in financial profile of the company.

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 relative to other producers. This also create entry barrier to new market entrant owing to lack of availability of raw materials. The company has also taken several steps to improve operational efficiency and reduce costs in last one year and had appointed reputed consultants for the same. Further, the company has 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 tons of industrial salts per annum. The company has also added new customers in recent fiscals with long-term contracts which will ensure sustained revenue contribution from the segment. This provides some revenue stability, given the contribution of salt to the overall revenue mix. The marketing of bromine, the other key product, has also been successful, with ACIPL able to acquire several new international customers for the product category.

Credit challenges

Financial profile characterized by highly leveraged capital structure and stressed coverage indicators – The company's capital structure is highly leveraged with gearing of 17.4 times as on March 31, 2019 due to low net worth arising from accumulated losses from past few years. The coverage indicators have also been stretched on account of subdued profit margins, with interest coverage and TD/OPBDITA of 0.6 time and 10.3 times in FY2019. OPM was impacted by large inventory write offs and provisions for bad debt and stood at 13% in FY2019 compared to 18.9%. Adjusted for tinventory adjustments, the OPM would have been ~23.9%. The NPM witnessed improvement to 7.3% in FY2019 from -18.0% due to write off of interest liability towards erstwhile lenders and promoters.

Higher interest cost on NCDs – The effecitive interest rate on the NCDs is high at 17%, however , the mandatory payments are restricted to 10-12% coupon till FY2025 and the differential interest payment 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 timely completion and stabilization of bromine expansion project.

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. The margins are also vulnerable to volatility in global product prices and forex rate movement.

Liquidity position: Stretched

ACIPL's liquidity profile is stretched on account of moderate profit margins, high interest obligations, moderately high working capital intensity and bromine expansion project being executed in current fiscal. The capex is being funded through the funds from NCD. ICRA notes that the company has created 3 months DSRA from the NCD proceeds, which supports near term liquidity and the same will be increased to 6 months DSRA, with improvement in financial performance. Company also plans to avail ~Rs 75 crore working capital facilities at lower interest rates (allowed under the terms of NCD), which will also support the liquidity position. However, timely completion of project and stabilization of operations and improvement in scale and profitability will be crucial for improvement in liquidity profile.

Rating sensitivities

Positive Trigger

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

Negative Trigger

Ratings could witness a downgrade if lower than expected cash accruals, delays in bromine plant expansion or a stretch in working capital cycle puts pressure on 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	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in July 2009, ACIPL has 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 located 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.

In FY2019, the company reported a net profits of Rs. 41.1 crore (adjusted for interest write off of Rs 114.3 crore) on an operating income (OI) of Rs. 565.5 crore, as compared to a net loss of Rs. 79.2 crore on an OI of Rs. 438.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	438.8	565.5
PAT (Rs. crore)	(79.2)	41.1
OPBDIT/OI (%)	18.9%	13.0%
RoCE (%)	1.6%	16.2%
Total Outside Liabilities/Tangible Net Worth (times)	-43.5	25.4
Total Debt/OPBDIT (times)	12.4	10.3
Interest Coverage (times)	0.8	0.6
DSCR	0.6	0.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Rating	FY2019			FY2017	FY2016		
					30-Sept-2019	7-Dec-2018	30-Aug-2018	16-Apr-2018	29-Nov-2018	13-Jan-2016	06-Oct-2015	
1	NCD	Long Term	840.00	840.00	[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	[ICRA]D	[ICRA]BB- (suspended)	
3	Fund-based facilities	Short Term	53.41	0.00	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D		
4	Long-term, unallocated facilities	Long Term	404.34	0.00	-	[ICRA]D; Withdrawn	[ICRA]D	[ICRA]D				

Amount in Rs. crore

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	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]B+(Stable)

Source: Archean Chemical Industries Private Limited

Analyst Contacts

K. Ravichandran
+91 4445964301
ravichandran@icraindia.com

Sai Krishna
+91 4445964300
sai.krishna@icraindia.com

Abhishwet Dhete
+91 4442974312
abhishwet.dhete@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

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
Website: 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) 020 6606 9999