December 31, 2021

Catasynth Speciality Chemicals Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Term Loan	110.0	98.00	[ICRA]BBB-(Stable); Reaffirmed
Fund- based: working capital	-	12.00	[ICRA]BBB-(Stable); Reaffirmed
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of rating factors in the managerial, operational and financial support, Catasynth Speciality Chemical Private Limited (CSCPL) derives from its promoter group, which has an established presence in the chemical industry. CSCPL is a subsidiary of Anthea Aromatics Private Limited (AAPL; 75% stake) and Solvay Speciality and Plastic Holding (Solvay; 25%). Solvay is a wholly-owned subsidiary of Solvay SA, which is rated at Baa2/stable/P-2 by Moody's. ICRA notes the slower than expected ramp up in operations due to delays in stabilisation of operations and extended disruption caused by a fire accident in a key product unit in April 2021. This led to the company reporting an OI of Rs. 31.0 crore and Rs. 23.4 crore in FY2021 and H1 FY2022, respectively, while continuing to make operating losses. Nonetheless, there has been some traction in capacity utilisation in recent months and the production unit for piperonal, which was impacted by the accident, is expected to start operations by the end of the current fiscal.

The company has also applied for insurance claims and received around Rs. 10 crore in H1 FY2022. ICRA will be monitoring the timing and quantum of insurance receipts. However, support from promoters in the form of unsecured loans, conversion of part of unsecured loans into equity and fresh equity infusion in the current fiscal have supported the operations and debt servicing. Further, the company has also refinanced the term loans and availed additional bridge loans and working capital facilities to provide liquidity cushion and support reconstruction activity. ICRA expects CSCPL to benefit from the established customer and distribution network, the technological knowhow and the moderate financial strength of the Anthea Group. The patented manufacturing process of CSCPL's products has been developed in-house by AAPL and the intellectual property has been licensed to CSCPL for use in perpetuity. Moreover, the rating also considers CSCPL having a sales and supply arrangement in place with Solvay, which provides comfort in terms of quality raw materials and marketing support. The company's strong linkage with its parents strengthens ICRA's assumption that CSCPL will receive timely and adequate support (both financial and operational) from its parent as and when required.

The rating is, however, constrained by the nascent stage of the company's operations and disruption caused by the fire accident and the risks related to stabilisation of operations as per expected parameters. ICRA notes that the company's credit profile hinges on timely stabilisation and requisite support from its parent, in case of any cash flow mismatches. The rating also remains constrained by the vulnerability of profit margin to fluctuation in raw material prices, foreign currency exchange rates and competition from the large established national and international players. Achieving healthy capacity utilisation levels with commensurate returns, through desired scaling up to a reasonable size, would remain a key sensitivity factor.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company's credit profile will be supported by scaling up of operations, going forward, while benefiting from the extensive experience of the management and the established track record of the Anthea Group in the flavour and fragrance ingredient manufacturing business for around three decades. However, the pace of scaling up of operations to achieve profitability is important from a credit perspective and will be monitored. In the interim, ICRA expects the promoters to provide financial support, if needed.

Key rating drivers and their description

Credit strengths

Experienced management and established track record of the Group – The promoters and the management are well experienced. Dr. Vincent Paul, along with his sons, Dr. Paul Menacherry and Mr. Mathew V. Menacherry, has been associated with the speciality chemical industry for more than two decades. The Anthea Group is well established in the aroma chemical business. Solvay SA is one of the leading European chemical groups and enjoys an established global market position in its three main operational segments of advanced materials, advanced formulations and performance chemicals.

Operational and financial support from the promoter group – CSCPL derives financial flexibility as well as operational synergies from the strong technical knowhow, the established customer and distribution network of the principle parent, AAPL. The company has also received financial support from its parents in the form of unsecured loans, equity support and corporate guarantee to lenders for its debt facilities.

Sales and supply arrangement with Solvay provides comfort – CSCPL has a sales and supply arrangement with Solvay, which limits the sales and supply related risks to some extent. It also has a tolling arrangement in place till April 2022 with its associate concern, Crown Chemicals Private Limited (CCPL). Under the supply arrangement, the entire raw material requirements for its key raw material, Catechol, will be supplied by Solvay under the most favourable nations clause, to phenol-linked prices. The same provides comfort in terms of uninterrupted supply of raw material. Under the sales arrangement, Solvay will act as a marketing agent for CSCPL's products, for a commission, to the top-five global flavour and fragrance (F&F) houses as well as in some key geographies, such as the US and China. Solvay has an established presence in the said regions and the loyal relationships with the top-five F&F houses, which provide comfort in terms of marketing.

Credit challenges

Nascent stage of operations and impact of fire accident, with risks related to stabilisation of operations – The company had commenced manufacturing various products in FY2021; however, due to delays caused by Covid-19 and other factors, there were commencement delays in some of its units and the scale up was slower than expected, with the company reporting OI of Rs. 31.0 crore and operating loss of Rs. 12.8 crore. In April 2021, the production unit of the primary product, piperonal, witnessed a fire accident, which led to shut down of operations across all its units. While other units began operations from September 2021, the reconstruction and commencement of the piperonal unit is expected by the end of the current fiscal. The company, however, achieved OI and operating loss of Rs. 23.4 crore and Rs. 16.5 crore, respectively, in H1 FY2022, supported by tolling arrangement with group entity, CCPL. ICRA notes that there has been ramp up in capacity utilisation of other products in recent months, but the full year financial performance is expected to be subdued. The company's operations have been supported by bridge loans and financial support from its parents. The company has also raised insurance claims and received Rs. 10 crore in H1 FY2022. The timeliness and quantum of additional insurance payments remain crucial and will be monitored. The company remains exposed to risks associated with stabilisation of operations and achievement of the desired operating and financial parameters and the pace of is a key monitorable. In the interim, should the need arise, ICRA expects the parents to extend financial support.

Competition and raw material price volatility – The company's margin is expected to remain vulnerable to competition from large domestic and international players, volatility in raw material prices and foreign currency exchange rate fluctuations. The company's key raw materials are crude oil derivatives, which are volatile in nature. Moreover, the company exports its products, making its profitability vulnerable to foreign currency exchange rate fluctuations to the extent unhedged.

Liquidity position: Adequate

The company has repayment obligations of Rs. 10.8 crore in FY2022 and Rs. 18.7 crore in FY2023. Cash accruals in FY2022 are expected to remain muted; although expected to improve in FY2023. However, the liquidity position of the company is adequate, driven by continued support from its parents, along with unencumbered cash balance, undrawn working capital limits and additional bridge loans tied up in the wake of the fire accident, which has not been fully drawn down.

Rating sensitivities

Positive factors

- Significant scaling up of operations along with healthy profitability on a sustained basis, leading to improved liquidity position and coverage indicators
- Improvement in credit profile of the parent

Negative factors

- Weakening in the parent's credit profile.
- Cessation of support or weakening of linkages with promoter group
- Lower than anticipated performance in terms of revenue and profitability on a sustained basis
- Higher than anticipated debt or stretch in working capital intensity, leading to weakening of the liquidity profile

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Parent/Group Company: Anthea Aromatics Private Limited and Solvay Speciality and Plastic Holding (a wholly-owned subsidiary of Solvay SA, rated Baa2/Stable/P-2 by Moody's). The ratings are based on implicit support from the parent/ Group company.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Catasynth Speciality Chemicals Private Limited (CSCPL) was incorporated in 2016 to set up a greenfield project at the Mangalore SEZ in Karnataka, with an installed production capacity of 5,600 MTPA for speciality chemicals, primarily used in the F&F, pharmaceutical and agrochemical applications. Anthea Aromatics Private Limited holds a majority stake of 74.9%, and Solvay Chemicals & Plastics Holding B.V. holds a stake of 25.1% in CSCPL.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	0.4	31.0
PAT (Rs. crore)	(9.7)	(31.1)
OPBDIT/OI (%)	-1035.6%	-41.2%
PAT/OI (%)	-2471.5%	-100.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	2.1
Total Debt/OPBDIT (times)	(35.0)	(15.8)
Interest Coverage (times)	(3.2)	(1.5)

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 September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					December 31, 2021	September 30, 2020	-	-
1	Fund-based Term Loan	Long-term	98.00	96.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2	Fund- based working capital	Long-term	12.00	-	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Term Loan	Simple
Fund- based working capital	Simple

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/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Federal Bank	Term Loan	February 2021	9.05%	March 2026	76.00	[ICRA]BBB-(Stable)
Federal Bank	GECL Loan	February 2021	9.05%	March 2026	22.00	[ICRA]BBB-(Stable)
HDFC Bank	Fund based Working Capital	NA	NA	NA	12.00	[ICRA]BBB-(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis –Not applicable

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