March 03, 2023

Archean Chemical Industries Limited: Rating upgraded to [ICRA]BBB+(Stable) and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	840.0	0.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BB (Stable) and withdrawn
Total	**840.0**	**0.00**	

Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in the improved financial risk profile of Archean Chemicals Industries Limited (ACIL) post the initial public offer (IPO) in November 2022 wherein the company raised Rs.805 crore through a fresh issue of shares. The infusion of fresh capital improved the net worth and the IPO proceeds were majorly used for early redemption of the non-convertible debentures (NCDs) against the maturity in November 2024, strengthening the capital structure and coverage metrics. The rating also factors in the continued improvement in revenues in FY2022 and 9M FY2023 along with healthy operating profitability levels of 35-40% in the last three years. The operating profitability remained strong owing to higher 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 ACIL's revenue stability.

The rating, however, 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. 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 the hedging policy adopted by the company.

The Stable outlook on the long-term rating reflects ICRA's opinion that ACIL will witness stable revenue growth across the major product segments and maintain healthy profitability.

ICRA has withdrawn the rating assigned to the bank facilities of ACIL based on the request received from the company, as the rated instrument (NCDs) has been fully repaid and there is no amount outstanding against the same. This is in accordance with ICRA's policy on withdrawal.

Key Rating drivers and their description

Credit strengths

Cost advantage from integrated manufacturing plant: ACIL 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 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.

Comfortable financial risk profile: The financial risk profile of ACIL improved post the initial public offer (IPO) in November 2022 wherein the company raised Rs.805 crore through a fresh issue of shares. The infusion of fresh capital improved the net worth and the IPO proceeds were majorly used towards early redemption of non-convertible debentures (NCDs) against the maturity in November 2024, strengthening the capital structure and coverage metrics. ACIL's revenue increased by 52.0% on a YoY basis in FY2022 to Rs. 1,130 crore against Rs. 740 crore in FY2021, supported by increasing volumes and realisations. Also, for 9M FY2023, the company has already achieved a topline of Rs. 1,059 crore. The operating profitability remained strong owing to higher contribution from the high-margin yielding bromine segment and healthy performance of the industrial salt division. The interest coverage was about 2.9 times in FY2022 and 4.7 times in 9M FY2023 and it is expected to improve significantly, going forward, with the reduction in debt. At present, the company doesn't have any long-term debt.

Marketing arrangements to reduce business risks: The company has a long-term offtake agreement with Sojitz Corporation of Japan for 2 million tonnes 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 ACIL acquiring several new international customers for the product category.

Credit challenges

High revenue concentration; operations and vulnerable to 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 company majorly generates its revenues from the bromine and industrial segments. The revenues would be diversified to an extent post the commencement of the bromine derivative products plant.

Vulnerability of profitability to volatility in product prices and input costs: The profitability of the company is vulnerable to the volatility in global product prices, input costs and forex rate movement. However, the company enters into fixed price contracts with the customers which would mitigate the risk to an extent. The company also enters into forward contracts for export receivables which would mitigate the foreign exchange risk up to some extent.

Liquidity position- Strong

ACIL's liquidity position is strong, supported by healthy operating cash flows. The company currently has no long-term debt repayment obligations. The company had cash and bank balances of Rs. 200 crore as of December 2022 at a consolidated level. The company has major capex plans of ~Rs. 250 crore in FY2024, under wholly owned subsidiary, Acume Chemicals Private Limited which is expected to be funded by 70% debt and the balance by internal accruals.

Rating sensitivities

Positive factors - NA

Negative factors - NA

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered consolidated financials of Archean Chemical Industries Limited for arriving at the ratings

About the company

ACIL, incorporated in July 2009, operates an integrated marine chemicals complex for producing bromine, industrial salt and sulphate of potash (SOP). The commercial operations commenced 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 marine mineral deposits in the Rann of Kutch. The ACIL is already one of the leading producers of industrial salt in the country; it is also the first domestic manufacturer of SOP. ACIL has a wholly-owned subsidiary, Acume Chemicals Private Limited, incorporated in November 2021 to manufacture bromine performance derivatives products.

Key financial indicators:- (Consolidated – Audited)

Particulars	FY2021	FY2022	9MFY23*
Operating income	740.8	1,130.4	1,058.7
PAT	66.6	188.3	246.0
OPBDIT/OI	35.4%	41.3%	41.5%
PAT/OI	9.0%	16.7%	23.2%
Total outside liabilities/Tangible net worth (times)	17.7	4.8	
Total debt/OPBDIT (times)	3.4	1.9	
Interest coverage (times)	2.0	2.9	4.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 03, 2023	Mar 04, 2022	Jan 29, 2021	Oct 10, 2019
1	**NCD**	Long Term	840.0	Nil	**[ICRA]BBB+(Stable); withdrawn**	**[ICRA]BB (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]B+ (Stable)**

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 analysing 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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE128X07028	NCD	22-Nov-2018	17%	21-Nov2024	840.0	[ICRA]BBB+(Stable); withdrawn

Source: Company

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Acume Chemicals Private Limited	100%	Full Consolidation

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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.

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