May 06, 2024

Nirma Limited: Long-term rating removed from rating watch with developing implications; Stable outlook assigned; reaffirmed and withdrawn and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Term loan	300.00	0.00	[ICRA]AA (Stable); removed from Rating Watch with Developing Implications; Stable outlook assigned, reaffirmed and withdrawn
Commercial paper	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Total	**1,800.00**	**1,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Nirma Limited (Nirma/the company) and the removal of the long-term rating from watch with developing implications factor in the completion of the acquisition of its ~75% stake in Glenmark Lifesciences Limited (GLS) from parent company Glenmark Pharmaceuticals Limited (GLP) in March 2024. The acquisition was made at a price of ~Rs. 598.5 per share, valuing the firm at ~Rs. 5,500 crore, which was funded in a mix of NCDs worth Rs. 3,500 crore and bank borrowings/cash balances. As part of the transaction, GLP would continue to hold an ~8% stake in GLS.

The acquisition of GLS is likely to further improve Nirma's business profile by diversifying its operations and driving the revenue growth, going forward, on a consolidated basis. However, the leverage and credit metrics have moderated on account of the acquisition, though the credit metrics are likely to improve gradually over FY2025-FY2026 on a consolidated basis. The ratings also factor in the company's exceptional financial flexibility because of the presence of a mix of bankers and access to the capital markets. Moreover, the company has a track record of deleveraging its balance sheet, post acquisition, at a healthy pace.

Further, ICRA has withdrawn the long-term rating assigned to the term loans of Nirma as no amount is outstanding against the facility and at the request of the company in accordance with ICRA's policy on withdrawal.

The ratings continue to factor in Nirma's established market position in the domestic soda ash and soaps and detergents (S&D) businesses, supported by the highly backward-integrated nature of its operations. Further, the ratings factor in the company's robust financial risk profile, characterised by strong free cash generation in FY2023 and healthy capitalisation and coverage metrics with net debt/OPBDITA of 0.6x at the end of FY2023 (1.5x at the end of FY2022) and interest coverage of 10.2x in FY2023 (4.8x in FY2022). ICRA also notes that the revenue and profitability moderated during 9M FY2024 on account of subdued demand and prices for soda ash and caustic soda. Going forward, the overall credit profile is expected to remain stable with a marginal improvement in the performance of the caustic soda segment and a stable show by the soda ash segment.

The ratings, however, are constrained by the vulnerability of Nirma's profitability to commodity price cycles, foreign exchange fluctuations, import duty levels and elevated competition in the S&D business, besides the sizeable contingent liabilities.

Key rating drivers and their description

Credit strengths

Integrated operations in soda ash and S&D segments; strong control over cost structure - Backward integration, a key strategic strength for the company, has protected it from the steadily increasing raw material prices in the last few years. Additionally, it ensures timely and adequate raw material supply. Nirma manufactures soda ash and LAB, which are the key raw materials to manufacture detergents. Further, its operations are backward integrated to manufacture n-paraffins and other chemicals. The company has large salt pans in Gujarat, which provide a steady supply of salt for soda ash production. It has set up a larger capacity of soda ash than its captive requirements, strengthening its market position in the soda ash business. Thus, there is considerable control over the cost structure, which continues to result in competitive advantage.

Diversified revenue and EBIDTA sources - Nirma’s revenue and EBIDTA sources remain diversified with its US operations driving ~25% of its revenue in FY2023. The US operations were impacted by the high input costs and low contract prices in FY2023, which affected the consolidated EBIDTA to some extent. However, Nirma’s India operations in the chemical and FMCG segments have a fairly wide geographical reach and the EBITDA mix has a healthy diversification across soda ash, caustic soda, LAB, S&D and other products. In FY2024, the revenue moderated YoY, driven by the softening of realisations in key operating segments i.e. soda ash, caustic soda, LAB and bromine. The sales volumes have also moderated, resulting from subdued demand for caustic soda and soda ash and significant dumping of LAB from West Asia in the country. The company’s profitability also witnessed significant moderation in FY2024 because of the softness in demand and the pricing of soda ash and caustic soda. Going forward, the profitability is expected to improve with an improvement in the sales volume for both soda ash and caustic soda.

Healthy financial risk profile - Nirma’s financial risk profile has improved over the last couple of years, driven by deleveraging and healthy cash generation from operations. The consolidated net leverage (net debt/OPBDITA) improved to 0.6x in FY2023 from 1.5x in FY2022, while the interest coverage (consolidated) increased to 10.2x in FY2023 from 4.8x in FY2022. Going forward, ICRA expects Nirma’s core profitability to remain healthy, which should support the company’s credit profile. However, the leverage and credit metrics have moderated on account of the GLS acquisition. The credit metrics are likely to improve gradually over FY2025-FY2026 on a consolidated basis. The exceptional financial flexibility showcased by Nirma and the deleveraging undertaken in the past, post acquisition, provide comfort regarding the company’s ability to maintain a healthy credit profile.

Credit challenges

Competition in soap and detergent segment - Nirma is a significant player in the detergent market after Hindustan Unilever Limited (HUL), Rohit Surfactant (Brand: Ghari) and P&G. While HUL is present across multiple categories, Nirma tends to focus on value-for-money offerings. As the company mostly caters to the price-sensitive economy segment, it faces high competition from unorganised players. However, the competitive pressure is mitigated by Nirma’s strong brand, its wide distribution network and a diversified business model.

Vulnerability of profitability to commodity cycles - Soda ash, caustic soda and LAB drive ~60-65% of Nirma’s revenues on a standalone basis. The commoditised nature of the chemicals exposes the company’s margins to global prices, domestic demand-supply fluctuations, forex rates and import duty levels, despite the strong control over costs on account of backward integration.

Sizeable contingent liabilities in the form of direct tax related disputes - Nirma has sizeable contingent liabilities in the form of direct tax related disputes in the last few years. The disputes are contested by the management and the developments will be monitored.

Liquidity position: Adequate

ICRA expects Nirma's liquidity position to remain adequate, going forward, supported by likely healthy cash accruals, cushion in fund-based limits and the ability of the company to access the banking/capital markets at a short notice to raise funds at competitive rates. ICRA expects Nirma to generate Rs. 1,400-1,600 crore for net cash accruals in FY2025 against which it will have to meet a repayment of ~Rs. 1,100 crore for the NCDs and around Rs. 225-250 crore for the term loans, thereby keeping the liquidity position adequate.

Rating sensitivities

Positive factors – NA

Negative factors – The pressure on the ratings may arise if there is a material deterioration in revenue and profitability, and/or if the working capital cycle of the company weakens the leverage and coverage metrics along with a significant moderation in the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemicals Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Nirma, its five subsidiaries and an associate, which are all listed in Annexure II

About the company

Nirma, set up by Dr. Karsanbhai K. Patel in 1980, is a diversified manufacturer of chemicals such as soda ash, caustic soda, LAB, and FMCG products like soaps, detergents and edible salt. The company has steadily expanded its operations over the years and has manufacturing plants in Searles Valley (USA), Mehsana, Ahmedabad, Vadodara, Bhavnagar and Porbandar in Gujarat. It has backward integrated its manufacturing processes by producing a variety of chemicals used as inputs to manufacture detergents. The company has soda ash operations in the US through its wholly-owned subsidiary, Karnavati Holdings Inc.

Key financial indicators (audited)

Nirma Consolidated	FY2022	FY2023
Operating income	8,963	11,349
PAT	357	909
OPBDIT/OI	17.2%	18.9%
PAT/OI	4.0%	8.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	2.1	1.3
Interest coverage (times)	4.8	10.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 06, 2024	Oct 03, 2023	Aug 11, 2023	Sep 30, 2022	Sep 28, 2021
1	**Term loans**	Long term	300.00	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA; Rating Watch with Developing Implications**	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**	**[ICRA]AA (Stable)**
2	**Commercial paper**	Short term	1500.00	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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
NA	**Term loan**	NA	-	NA	300.00	[ICRA]AA (Stable); withdrawn
INE091A14EB4	**Commercial paper**	22-02-2024	7.58%	22-05-2024	260.00	[ICRA]A1+
Unplaced	**Commercial paper**	NA	NA	NA	1240.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Karnavati Holdings Inc (USA)	100.00%	Full Consolidation
Searles Valley Minerals Inc	100.00%	Full Consolidation
Trona Railway Company LLC	100.00%	Full Consolidation
Searles Domestic Water Company LLC	100.00%	Full Consolidation
Searles Valley Minerals Europe	100.00%	Full Consolidation
Glenmark Life Sciences Limited*	75.00%	Full Consolidation

*Source: Company data; *ICRA has consolidated the projected performance of GLS as it became the subsidiary of Nirma Limited in March 2024*

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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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