September 05, 2023

Ganga Rasayanie Private Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	20.00	20.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Positive) and outlook revised to Stable from Positive
Long-term– fund based/Non-fund based	93.00	93.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Positive) and outlook revised to Stable from Positive
Long-term/Short-term –Interchangeable	(85.00)	(85.00)	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive) /[ICRA]A3+ and outlook revised to Stable from Positive
Long term/Short term – Unallocated	17.00	17.00	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Positive) /[ICRA]A3+ and outlook revised to Stable from Positive
Total	**130.00**	**130.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade factors in a significant increase in Ganga Rasayanie Private Limited's (GRPL) operating income in FY2023 and the likely sustenance of same, going forward. GRPL reported a 56% YoY growth in its revenue in FY2023, supported by increased realisation and healthy sales volume. Further, the Dahej plant is expected to start its commercial operation in Q4 FY2024, which is likely to support a healthy growth in OI from FY2025.

ICRA notes the delay in achieving the commercial operation of the Dahej plant. However, the relatively low dependence on external debt for the capex and no major project cost overruns are expected to keep the capital structure and coverage indicators comfortable. Nonetheless, any major upward revision in the project cost remains a sensitivity factor. Further, a healthy increase in operating profit in FY2023 and the consequent increase in accrual generation, and the comfortable capital structure and debt protection metrics have continued to result in a comfortable financial risk profile for the company. The ratings continue to factor in the extensive experience of the company in the solvent industry and its established relationship with diversified customers across industries.

The ratings are, however, constrained by the risks associated with the stabilisation of the expansion project at Dahej. Further, ICRA notes that GRPL's profitability remains exposed to the fluctuations in the prices of key raw materials, which are crude oil derivatives. The demand-supply dynamics, forex risks and stiff competition from other large oil refineries and imports are the other constraining factors. Further, a sharp increase in raw material prices and increased dependence on domestic players for raw material has increased the working capital requirement and use of liquid funds in FY2023.

The Stable outlook on the long-term rating suggests that GRPL will benefit from the extensive experience of its management and its established relationships with customers in the solvent industry.

Key rating drivers and their description

Credit strengths

Experienced management and established position in aromatic and aliphatic solvent industry - The promoters of the company have more than three decades of experience in the aromatic and aliphatic solvent industry. Further, the company, incorporated in 1977, has an established relationship with key intermediaries and end customers, which reduces the offtake risk to some extent.

Large and diversified customer profile - GRPL's revenue is derived from a diversified customer base spread across various industry segments such as paints and coatings, oil-feed chemical industry and petrochemicals, mitigating the sector-specific risks to some extent. Further, GRPL's top-five customers accounted for ~30% of the total revenue in FY2023, the lower level of customer concentration.

Comfortable financial risk profile - GRPL's operating income increased by 56% YoY to Rs. 536.9 crore in FY2023 and by 44% YoY to Rs. 342.2 crore in FY2022 against Rs. 239.1 crore in FY2021. The healthy increase in operating profit in FY2023 and the consequent rise in accrual generation, comfortable capital structure and debt protection metrics have continued to result in a comfortable financial risk profile for the company.

GRPL's financial risk profile remained favourable, with a conservative capital structure (gearing of 0.3 times as on March 31, 2023) and comfortable debt coverage indicators, reflected in TD/OPBDITA of 1.0 times and interest coverage of 13.5 times in FY2023. The capital structure and coverage metrics are expected to remain healthy in FY2024. Further, the company is undergoing sizeable capex for capacity expansion, which will support future revenue growth. ICRA notes that the impact of the capex on the capital structure and coverage indicators will be minimal as majority of the capex would be funded through internal accruals and promoter infusion.

Credit challenges

Risks associated with timely completion and stabilisation of expansion project - GRPL has undertaken an expansion project at Dahej, Gujarat, to install a solvent processing plant with an annual installed capacity of 2,16,000 MTPA and a storage capacity of 20,000 MT. Phase I of the project is scheduled to be commissioned in Q3 FY2024, whereas phase II is scheduled to be commissioned in Q4 FY2024. ICRA notes the delay in achieving the commercial operation of the plant. However, the relatively low dependence on external debt for the capex and no major project cost overrun is expected to keep the capital structure and coverage indicators comfortable. Nonetheless, any major upward revision in project costs and stabilisation of the expansion project remain the sensitivity factors.

Exposure to raw material price fluctuation and forex risk - The company's profitability metrics remain exposed to the fluctuation in the prices of the raw material and the associated lag in passing on the same to the customers. However, in the last three years ended FY2022, the operating profit per kg has been range-bound at ~Rs.3.6-3.7 per kg, though it improved sharply in FY2023 to Rs. 6.9 per kg due to supply-demand constraints. GRPL also remains exposed to foreign currency fluctuation risks as 30-40% of the company's raw materials are imported; however, simultaneous exports of around 40% of the total sales mitigate the risk to some extent. Further, the company manages its forex risk through internal risk mitigation policies.

Intense competition from large oil refineries and imports – The petrochemical sector faces intense competition from large refineries in India and from imports. However, the entry barriers in the industry, in terms of quality, chemical usage, pollution control and approval, coupled with its preferred supplier status with end-user industries, provide GRPL with a competitive advantage.

Liquidity position: Adequate

GRPL's liquidity is expected to remain adequate, even after the sizeable near-term capex, as the repayments are limited compared to the expected accruals and cushion is available in working capital limits (average working capital limit utilisation of 48% during the 12-month period of June 2022-May 2023). Further, the company has cash and liquid investment of ~Rs. 5 crore as on March 31, 2023.

Rating sensitivities

Positive factors – ICRA may upgrade GRPL's ratings if the company is able to scale up its operations, while improving the profitability and coverage indicators.

Negative factors –Pressure on GRPL's ratings could arise if a significant decline in revenue and profitability deteriorates the capital structure and the overall liquidity profile of the company. Further, any major cost overrun in commissioning the Dahej project and additional dependence on debt impacting the company's overall liquidity profile could be a negative trigger.

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 ratings are based on the standalone financials of Ganga Rasayanie Private Limited

About the company

Ganga Rasayanie Private Limited (GRPL), incorporated in 1977, is involved in the business of downstream refining of heavy para-xylene products to produce aromatic compounds used in paints, coatings, printing inks, varnish, adhesives, oil-feed chemical and agro-chemical industries, including insecticides and pesticides. These products are produced through refining, fractional distillation, purification and blending of heavy aromatic oils. The company also manufactures aliphatic solvents; however, the proportion of the same in the total products sold remains low. The company has two manufacturing facilities, one each at Ankleshwar (Gujarat) and Panamgadu (Andhra Pradesh) with an installed capacity of 70,000 MTPA and 10,000 MTPA, respectively. The company is also undertaking an expansion project to set up a new facility at Dahej, Gujarat, with an installed processing capacity of 216,000 MTPA and a storage capacity of 20,000 MT, which is expected achieve commercial operations in Q4 FY2024.

Key financial indicators

GRPL Standalone	FY2022	FY2023*
Operating income	344.9	536.9
PAT	13.1	26.6
OPBDIT/OI	6.1%	7.3%
PAT/OI	3.8%	5.0%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	2.1	1.0
Interest coverage (times)	6.6	13.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;*Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 5, 2023	Jul 29, 2022	Apr 08, 2021	-	Oct 10, 2019
1	Term loans	Long term	20.0	12.7	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	-	[ICRA]BBB (Stable)
2	Fund based/non fund-based facilities	Long term	93.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Positive)	-	[ICRA]BBB (Stable)
3	Interchangeable	Long term and short term	(85.0)		[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Positive)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+
4	Unallocated limits	Long term and short term	17.0		[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Positive)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Fund-based/non-fund-based facilities	Simple
Interchangeable	Simple
Unallocated limits	Not applicable

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-I	Aug 2020	NA	FY2027	20.0	[ICRA]BBB+(Stable)
NA	Fund-based/non fund-based facilities	NA	NA	NA	93.0	[ICRA]BBB+(Stable)
NA	Interchangeable	NA	NA	NA	(85.0)	[ICRA]BBB+(Stable)/[ICRA]A2
NA	Unallocated limits	NA	NA	NA	17.0	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis- Not applicable.

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