Deepak Nitrite Limited

January 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	106.00	426.00	[ICRA]A+ (Stable); Reaffirmed
Fund based limits	300.00	300.00	[ICRA]A+ (Stable); Reaffirmed
Non-fund based limits	170.00	170.00	[ICRA]A1+; Reaffirmed
Fund & Non-Fund Based Limits (Interchangeable)	150.00	200.00	[ICRA]A+ (Stable)/ [ICRA]A1+; Reaffirmed
Commercial Paper	100.00	100.00	[ICRA]A1+; Reaffirmed
Total	**826.00**	**1,196.00**	

*Instrument details in Annexure I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 1,096 crore[1] (enhanced from Rs. 726 crore) bank facilities of Deepak Nitrite Limited (DNL)[2]. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ outstanding on the Rs. 100 crore commercial paper programme of DNL.

Rationale

The reaffirmation of ratings takes into account the long operating track record of the company in the chemical industry, its diversified product mix as well as exposure to diversified end-user industries, and the leading market position enjoyed by the company in most of its products in the domestic as well as global markets. The ratings continue to factor DNL's multi-purpose manufacturing facility with significant backward and forward integration linkages that provide flexibility to change the product mix and cater to changing market requirements, and its technical expertise to handle complex and hazardous chemical processes like nitration, hydrogenation and diazotisation.

While reaffirming the ratings, ICRA takes note of the delays in ramping up of operations at Dahej facility for Optical Brightening Agent (OBA) to optimal levels. The sales of OBA declined 5% y-o-y in FY2017 and the production levels continue to remain lower than initial estimates. OBA, being a performance chemical, requires a longer validation cycle in foreign markets; the company is expanding its focus to Asian markets where demand from the textile sector has been strong. The company has taken steps in the last fiscal to improve the profitability of the OBA operations by changing its sales strategy along with reducing certain fixed costs. Thus, its ability to achieve healthy ramp up of OBA operations with improvement in its profitability and return indicators would remain important from a credit perspective.

The ratings are constrained by the exposure of the company's profitability to volatility in the raw material prices, though the same is reduced in certain products through formula-linked price contracts. The ratings further factor in the disruption in the company's operations due to a fire at its Roha facility in October 2016, which could be resumed only by May 2017, thus leading to lower-than-expected profitability and cash accruals in FY2017. The company's working capital cycle also increased in FY2017 leading to an increase in borrowing levels. The ratings further take into account the large-

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

size phenol and acetone project being undertaken by the company's subsidiary, Deepak Phenolics Limited ([ICRA]BBB (stable)). DNL has invested Rs. 375 crore in the project so far, largely through two successful QIP[3] issues with a final issue planned soon to meet the pending equity requirement. While the standalone project economics remains favourable, the ability to ramp up the utilisation levels of the plant, post-commissioning, so as to be able to service the debt on a standalone basis would remain important from a credit perspective; the extent of financial support, if required, extended by DNL beyond its committed equity would be a key rating sensitivity.

Outlook: Stable

ICRA believes DNL will continue to benefit from its leading presence in the domestic and global market for bulk and specialty chemicals. The outlook may be revised to 'Positive' if there is a turnaround in the company's OBA operations leading to improvement in the profitability and return metrics. The outlook may be revised to 'Negative' if the company's phenol/ acetone project requires any sizeable financial support from DNL beyond the committed equity contribution or if there is a further deterioration in the company's working capital cycle thereby weakening the company's liquidity position.

Key rating drivers

Credit strengths

Long operating history and established track record of the company in the global chemical intermediates industry – DNL has nearly five decades of operational presence in the business of manufacturing chemicals. Over the years, the company has grown to become a market leader in the domestic market for inorganic intermediates (sodium nitrite), nitro toluenes, and fuel additives. It is also among the top three global players in the market for xylidines, cumidines, and oximes.

Diversified product profile mitigating the risk associated with cyclicality in different product segments – While the company started with a limited portfolio of low-value bulk chemicals, sodium nitrite and sodium nitrate, it has grown its product portfolio to include high-value specialty chemicals used in multiple end-user applications and currently sells 15-20 different chemical products. Recently, the company commenced production of pharma intermediaries and more agro-chemical products. The introduction of such new products helps diversify the risk related to a particular product segment.

Multi-purpose manufacturing facility, with significant backward and forward integration linkages – The company's production facilities include production processes that allow vertical integration for most products thereby leading to significant cost savings. Also, the facilities are designed to provide flexibility to change the product mix to cater to market requirements. For instance, the company used a few of its production lines, originally meant for fuel additives, to manufacture sodium nitrite/ sodium nitrate given the decline in demand for fuel additives.

[3] Qualified Institutional Placement

Credit weaknesses

Delays in ramping up of operations at Dahej facility for OBA – While the company has been able to scale up its OBA operations post-commissioning in July 2014, the revenue growth remains lower-than-expected. The company continues to witness challenges since OBA is a performance chemical and goes through an elongated approval process by the customer. However, DNL has employed certain strategies to bring the OBA capacity utilisation to a steady level and improve the profitability of its operations, though the effectiveness of the same remains to be seen.

Profitability exposed to volatility in raw material prices though the same is reduced in certain products through formula-linked price contracts - Most of the company's key products witnessed a fall in their price levels following a sharp decline in crude prices since September 2015. The drop in price levels has, however, varied across product categories and has been lower than the rate of crude price decline due to formula-linked pricing. Also, prices of some of the other key products, such as sodium nitrite, TFMAP, OBA, DASDA, etc. which form about 45%~50% of the company's sales currently, are delinked with movement in crude oil prices and were largely flat during this period.

Large size phenol and acetone project being undertaken through an SPV – DNL, through its wholly-owned subsidiary, Deepak Phenolics Limited (DPL), is setting up a project in Dahej with a capacity to manufacture 200,000 metric tonnes per annum (MTPA) of phenol and 120,000 MTPA of acetone. The total capex of the project, expected to be commissioned by April 2018, is ~Rs. 1,400 crore. As of now, DNL's equity contribution to the project is Rs. 375 crore (of the required Rs. 560 crore), which has been raised partly by QIP issues and partly by land sale and internal accruals. The project's debt requirement has been entirely tied-up at favourable terms with repayment to commence from June 2020. The ramp-up of operations at the facility, post-commissioning, is important to ensure that DPL is able to independently service its debt obligations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Chemical Industry

About the company:

Deepak Nitrite Limited (DNL) is the flagship of the Deepak Group, which was incorporated in the year 1970 by Mr. C.K. Mehta. It began as a fully indigenous sodium nitrite and sodium nitrate manufacturer and has gradually widened its product portfolio, enjoying a leading market position in most of its products in the domestic as well as global markets. DNL's product portfolio consists of Basic Chemicals, Fine & Speciality Chemicals (FSC) and Performance Products. DNL's manufacturing facilities are located at Nandesari and Dahej in Gujarat, Taloja and Roha in Maharashtra and Hyderabad in Telangana. DNL's growth has also been aided by strategic acquisitions of companies with complementary product lines, in the past periods. DNL is currently setting up a large-scale greenfield project at Dahej for manufacturing of phenol and acetone at a project cost of Rs. 1,400 crore through a subsidiary, viz. Deepak Phenolics Limited.

Key Financial Indicators (Audited) – Standalone

	FY2016	FY2017	H1FY2018 (P)
Operating Income (Rs. crore)	1,330.1	1,216.9	692.3
PAT (Rs. crore)	65.1	112.0*	42.8
OPBDIT/ OI (%)	12.4%	11.8%	14.9%
RoCE (%)	13.6%	15.6%	
Total Debt/ TNW (times)	1.0	0.8	0.8
Total Debt/ OPBDIT (times)	3.0	4.0	2.4
Interest coverage (times)	4.2	4.4	5.1
NWC/ OI (%)	23%	31%	

*includes pre-tax exceptional gain of Rs. 70.8 crore towards land sale

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
						Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	March 2017	December 2016	December 2015	December 2014
1	Fund Based Limits – Cash Credit	Long-Term	300.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loan	Long-Term	426.00	116.30	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund Based/ Non-Fund Based Limits (Interchange-able)	Long-Term & Short-Term	200.00		[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
4	Non-Fund Based Limits – LC, BG	Short-Term	170.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short-Term	100.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	9.25%	FY2026	426.00	[ICRA]A+ (Stable)
NA	Fund based limits - Cash Credit	-	-	-	300.00	[ICRA]A+ (Stable)
NA	Non-fund based limits	-	-	-	170.00	[ICRA]A1+
NA	Commercial Paper	-	-	7-365 days	100.00	[ICRA]A1+
NA	Fund based/ Non-fund based limits (interchangeable)	-	-	-	200.00	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Deepak Nitrite Ltd.

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Abhishek Dafria
+91 22 6169 3344
abhishek.dafria@icraindia.com

Anubha Rustagi
+91 22 6169 3341
anubha.rustagi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (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) 6606 9999