

Rating Rationale

June 02, 2023 | Mumbai

Deepak Nitrite Limited Ratings Reaffirmed and Withdrawn A

Rating Action

Total Bank Loan Facilities Rated	Rs.750 Crore
Long Term Rating	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Short Term Rating	CRISIL A1+ (Rating Reaffirmed and Withdrawn)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Deepak Nitrite Limited (DNL group, including its subsidiaries) and subsequently **withdrawn** the ratings on the request of the company and receipt of a no objection certificates from its banks. The withdrawal is in-line with CRISIL Ratings's policy on withdrawal of bank loan ratings.

The ratings take into consideration healthy revenue growth of ~17% year on year taking the overall revenue to Rs 7972 crores in FY23. The growth was driven by improvement in volume sales by ~15% in the phenolics segment due to the higher than 100% capacity utilization in fiscal 2023. In FY23 Advanced Intermediates contributed ~Rs 3034 crores (38%) of revenue while balance ~Rs 4970 crores (62%) was from phenolics. Overall performance is expected to remain healthy over the medium term further aided by planned capital expenditure (capex) worth ~Rs 2500 crores in value added segments.

Gross margins moderated by ~675 bps during the last fiscal due to the sharp increase in raw material prices. This affected overall operating margins by ~750 bps taking them to 16.17% for FY23. However, major impact on overall margins was mainly due to moderation of margins by ~820 bps in the Phenolics segment where EBITDA margins for FY23 stood at 11.95% (FY22: 20.14%) as compared to 18.30% (FY22: 23.73%) in the Advanced Intermediates segment. During FY23, advanced intermediates contributed to 48.3% of the EBITDA as compared to 40.7% in FY22 while the balance 51.7% was from phenolics which contributed to 59.3% of EBITDA in FY22.

With healthy cash generation in the current year, company has already reduced debt levels which remained at Rs 54 crore as on March 31, 2023 on consolidated levels. This has resulted in healthy debt metrics for the company, for instance, debt by earnings before interest, tax, depreciation and amortisation (EBITDA) is at 0.04 times at the end of fiscal 2023. Interest coverage stood at 54 times in fiscal 2023 from 16.4 times in fiscal 2021, while the ratio of total outside liabilities (TOL)/Tangible net worth (TNW) was at 0.26 times. DNL also has a strong networth of Rs 4044 crores as on March 31 2023.

Going forward, DNL has planned a capex of Rs 2500 crores over the next 3 fiscals. However, the same is expected to be funded by internal accruals estimated above Rs 1000 crores per annum over the medium term. Furthermore, DNL is expected to be fully debt free by the end of fiscal 2024 post repayment of Rs 54 crores this fiscal.

Analytical Approach

For arriving at the ratings, the business and financial risk profiles of Deepak Nitrite Limited (DNL) and its subsidiaries, Deepak Phenolics Limited (DPL, 100% subsidiary, India); Deepak Clean Tech Ltd (DCTL, 100% subsidiary, India); Deepak Chem Tech Limited (DCTHL, 100% subsidiary, India) and Deepak Nitrite Corporation Inc, (100% subsidiary, USA), together referred to as DNL group, are combined as they have significant managerial, operational, and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy business profile driven by market leadership across its most of product segments

DNL group is the market leader in most of its businesses. In the Fine and Specialty Chemicals (FSC) segment, continuous investment in research & development (R&D), and integrated operations have helped DNL establish and maintain relationships with key customers in pharma, personal care and agro-based chemicals segment. In basic chemical business, the group is the largest player in India for supplying sodium nitrite/nitrate (market share of 80%), fuel additives (75%) and nitro-toluene (50%). Its market position in the Performance Products (PP) business (market share of 75% in optical brightening agents) is supported by large capacity, integrated operations (backward integration to Diamino Stilbene Disulfonic Acid (DASDA)) and receipt of customer approvals.

The group supplies to diverse end-user industries such as polymer additives, pigments, dyes, paints, pharmaceuticals, agrochemicals, refineries, ply, laminate and fast-moving consumer goods, and is insulated from downturn in any particular industry. Also, one fourth of its net revenue is from exports, providing geographical diversity. The group maintained a strong revenue growth rate (CAGR of ~36% in the past five fiscals). DNL group will sustain its healthy market share, given its leadership position, established track record, and large R&D capability leading to technical expertise.

Diversified revenue profile

DNL group has a diversified revenue profile, with presence in the Basic Chemicals (BC) business, FSC business, PP business and phenol & acetone business. Furthermore, no customer contributes more than 10% to total revenues indicating diversified customer profile. Entry in phenol segment in fiscal 2019 has driven improvement in scale of operations and diversity profile of the group.

The management has successfully diversified geographical presence through investments in the FSC business. The diversified revenue stream protects against downswing in any one business and keeps operating margin steady.

Improving financial profile with reduction in overall debt level

Financial risk profile of the group improved substantially in fiscal 2023, with cash accrual of over Rs 923 crore and reduction in overall debt levels. With strong cash generation over the medium term and debt level expected to be nil by fiscal 2024, debt protection metrics are

estimated to remain strong.

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The group has announced capex of ~Rs 2500 crores going forward which is expected to be met from internal accruals, thereby supporting continued strong debt protection metrics.

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Weaknesses:

Moderate working capital requirement

DNL group has moderate working capital requirement owing to debtor days of 60-65 days and gross current assets (GCA; net of cash) of 100-110 days in the past 3-4 years. With increasing contribution of phenol to total revenues and its better working capital cycle, GCA days of the group are expected to remain stable.

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Volatility of raw material prices and competition from imports:

The raw material prices are linked to movement in crude oil prices for some of the major products. Also, with increased contribution to phenol segment, DNL group's profitability will remain vulnerable to volatility in spreads between the pricing of feedstock (benzene and propylene) and finished products. The domestic phenol sector also faces competition from imports contributing 40% of domestic demand. Any changes in anti-dumping duty impacting demand-supply situation of some of its products may remain key monitoring factor.

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However, with diversification into other segments where formula-based pricing is used, the group has reduced exposure to such volatility.

Liquidity: Strong

The group is expected to have healthy liquidity with annual cash accruals of over Rs. 900 crores over the medium term as against total debt repayment of Rs ~54 crores. The fund-based bank limit of ~Rs 1500 crore remain unutilized over the past 6 months ended March 31, 2023. Further, the company also had cash and equivalent of ~Rs 40 crore as on March 31, 2023. Working capital requirements, capex plans, debt obligations are expected to be met through internal accruals, leading to limited dependence on external debt over medium term.

Outlook:Â Stable

CRISIL Ratings believes the DNL's business risk profile will benefit from increasing contribution of phenol segment and improving performance and market leadership across other product segments over the medium term. Healthy cash generating ability will ensure sustained strong debt metrics

Rating Sensitivity factors

Upward factors:

- Sustained improvement in operating performance leading to annual cash accruals at levels of over Rs.1000 crore on sustained basis
- Strong debt metrics are sustained and liquidity remains at healthy levels and build-up of cash surplus of more than Rs 250 crore

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Downward factors:

- Sharp deterioration in operating performance leading to cash accruals below Rs 500 crore
- Higher than expected debt funded capex or elongated working capital cycle, leading to weakening of debt metrics; for instance, Debt/EBITDA in excess of 1.5 times

About the Company

DNL was established in 1970s by Mr. Chimanlal K. Mehta (Founder & Promoter). It is well diversified with presence across three segments viz. Basic Chemicals (BC), Fine and Specialty Chemicals (FSC) and Performance Products (PP). The group has ventured into Phenol-Acetone segment through its 100% subsidiary Deepak Phenolics Limited in 2018. The group enjoys strong competitive positioning in most of the product categories and has a strong client base and caters to over 900+ clients in over 40+ countries. The group has manufacturing facilities located at Nandesari, Dahej (Gujarat), Roha, Taloja (Maharashtra) & Hyderabad (Telangana) & R & D facility at Nandesari, Vadodara.

Key Financial Indicators (Consolidated)

Particulars	Unit	2023	2022
Revenue	Rs. Cr.	7972	6818
Profit After Tax	Rs. Cr.	852	1067
PAT Margin	%	10.7	15.6
Adjusted Debt/Adjusted Net worth	Times	0.01	0.09
Interest coverage	Times	54.0	44.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -A Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	ComplexityÂ levels	Rating assigned with outlook
NA	Fund Based Facilities	NA	NA	NA	283	NA	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
NA	Fund Based Facilities*	NA	NA	NA	17	NA	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
NA	Fund Based Facilities**	NA	NA	NA	70	NA	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
NA	Non Fund Based Limit*	NA	NA	NA	33	NA	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
NA	Non Fund Based Limit	NA	NA	NA	137	NA	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
NA	Proposed Fund Based Bank Limits	NA	NA	NA	210	NA	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)

*Fund Based Limits and Non Fund Based Limits are interchangeable.

**Fund Based LimitsÂ are interchangeable with Non Fund Based Limits

Annexure â€” List of entities consolidated

Names of Entities Consolidated	Extent of ConsolidationÂ	Rationale for consolidation
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Deepak Phenolics Limited	Full consolidation	Subsidiary
Deepak Nitrite Corporation Inc	Full Consolidation	Subsidiary
Deepak Clean Tech Ltd	Full Consolidation	Subsidiary
Deepak Chem Tech Limited	Full Consolidation	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022 ^À		2021 ^À		2020 ^À		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	580.0	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)	À	--	08-06-22	CRISIL AA/Stable	18-03-21	CRISIL AA/Stable	27-08-20	CRISIL AA-/Positive	CRISIL AA-/Stable
À	À	À	--	À	--	24-03-22	CRISIL AA/Stable	À	--	À	--	--
Non-Fund Based Facilities	ST	170.0	CRISIL A1+ (Rating Reaffirmed and Withdrawn)	À	--	08-06-22	CRISIL A1+	18-03-21	CRISIL A1+	27-08-20	CRISIL A1+	CRISIL A1+
À	À	À	--	À	--	24-03-22	CRISIL A1+	À	--	À	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities ^{&}	50	Kotak Mahindra Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	100	State Bank of India	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	63	Bank of Baroda	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	15	Axis Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities [^]	17	ICICI Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	65	Standard Chartered Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities ^{&}	10	HDFC Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities ^{&}	10	YES Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	20	DBS Bank Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Fund-Based Facilities	20	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)
Non-Fund Based Limit	75	Axis Bank Limited	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
Non-Fund Based Limit [^]	33	ICICI Bank Limited	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
Non-Fund Based Limit	45	State Bank of India	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
Non-Fund Based Limit	17	Bank of Baroda	CRISIL A1+ (Rating Reaffirmed and Withdrawn)
Proposed Fund-Based Bank Limits	210	Not Applicable	CRISIL AA/Stable (Rating Reaffirmed and Withdrawn)

This Annexure has been updated on 02-June-2023 in line with the lender-wise facility details as on 27-Mar-2023 received from the rated entity.

& - Fund Based Limits are interchangeable with Non Fund Based Limits

^ - Fund Based Limits and Non Fund Based Limits are interchangeable.

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation

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