

Rating Update

March 21, 2024 | Mumbai

Chembond Chemicals Limited

Update as on March 21, 2024

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

Upward Factors

- Improvement in revenue growth and operating margin leading to sustained net cash accrual above Rs 25 crore.
- Sustained financial risk profile backed by strong capital structure, adequate liquidity, and robust debt protection metrics.

Downward Factors

- Subdued revenue growth, and operating margin sustaining below 4% over the medium term resulting in to lower net cash accruals
- Higher-than-expected debt-funded capital expenditure or acquisitions or stretch in working capital cycle weakens key credit metrics

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Chembond Chemicals Limited (CCL; part of Chembond group) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Group

Set up in 1975 by Dr Vinod Shah, Mr Ashwin Nagarwadia and Mr Parviz Dastur, Chembond manufactures speciality chemicals and provides a range of products for diverse industrial applications. It offers metal-treatment chemicals, water-treatment chemicals, and industrial enzymes through its subsidiaries and joint ventures (JVs). The company also manufactures chemicals for the construction and infrastructure sectors, and high-performance coatings for structural protection from corrosion, for floors and walls in clean rooms, and for shop floors and building exteriors. The company diversified into equipment-based solutions for water treatment. Additionally, it trades in building construction chemicals. Manufacturing and blending plants are in Tarapur (Maharashtra), Baddi (Himachal Pradesh), Chennai (Tamil Nadu), and Dudhwada (Vadodara, Gujarat). Warehouses and branch offices are in Ahmedabad (Gujarat), New Delhi, Faridabad (Haryana), and Kolkata (West Bengal).

In 2001, the Chembond group formed a JV with Ashland Inc, USA, and simultaneously acquired Drewtreat Chemicals Ltd for water-treatment chemicals. Pursuant to the sale of water-technologies business globally by Ashland Inc to Solenis Netherlands BV (Solenis). Solenis took over the minority stake in the Indian JV, Chembond Ashland Water Technology Ltd; the JV was renamed Chembond Solenis Water Technologies Ltd effective August 21, 2014. On April 27, 2017, Chembond entered into an agreement to acquire the equity shares of Chembond Solenis Water Technologies Ltd from Solenis Netherlands BV, after which the said entity became a wholly owned subsidiary of Chembond.

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In November 2017, Chembond acquired 100% stake in Phiroze Sethna Pvt Ltd (Phiroze Sethna), which manufactures sealants and adhesives for the automotive industry. Phiroze Sethna also has a wholly owned subsidiary, Gramos Chemicals India Pvt Ltd, which manufactures products used in paint shops in the automotive industry.

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Rating Rationale

January 31, 2023 | Mumbai

Chembond Chemicals Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.12 Crore
Long Term Rating	CRISIL BBB+/Stable (Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

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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 Chembond Chemicals Limited (CCL; part of Chembond group) at 'CRISIL BBB+/Stable/CRISIL A2'.

The ratings continue to reflect extensive experience of the promoters in the chemicals industry which has led to established market position of the group across various segments and sub-segments along with healthy financial risk profile of the group. These strengths are partially offset by the intense competition in the specialty chemicals industry and its working capital intensive nature of operations.

Analytical Approach

For arriving at its ratings, CRISIL Ratings continues to combine the business and financial risk profiles of Chembond with those of its subsidiaries (see annexure). This is because all these entities, together referred to as the Chembond group, are owned and managed by the same promoters and have significant 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:

Established market position with presence in diversified sub-segments:

With nearly five decades experience in specialty chemicals industry, Group has established its position as a market leader in the water treatment chemicals segment which has led to group venturing into other specialty chemical segments like the industrial coatings, construction chemicals and animal health segment. Group has a diversified customer base and deals with customers from various industries like automobile, animal cares, petrochemicals, steel, fertilizers and construction industries amongst others. Group is now benefitting from increased demand from the automobile segment and steady revenue growth from its major contributors the water treatment chemicals segment. Sustained growth in revenue and improvement in operating margins will continue to remain a key rating sensitivity factor.

Healthy financial risk profile:

Low total outside liabilities to adjusted networth estimated at sub 0.2 times on a healthy networth base estimated at around Rs 220-230 crore represents strong capital structure. Further, the debt protection metrics are also comfortable as marked by a healthy interest coverage ratio estimated at over 33 times and net cash accruals to adjusted debt of over 9.97 times in fiscal 2022 and interest coverage of over 35 times in the first half of fiscal 2023. Group's financial risk profile is expected to remain strong over the medium term in absence of any major debt funded capex

Weakness:

Working capital intensive operation:

Although on an improving trend group's working capital requirements are high as evidenced by the gross current asset (GCA) days of around 136 days as on March 31, 2022, against 164 days as on March 31, 2021. High GCA days are mainly driven by high debtor days of 95 days which have reduced to 87 days as on September 2022, these working capital requirements are met by the bank lines and creditors which stood at around 69 days as on March 31, 2022.

Exposure to intense competition:

Intense competition in surface and water-treatment chemical sector due to moderate capital requirement and easily available raw materials has led to many players entering this segment. Group continues to remain a major supplier for reputed customers with strong credit profile but is not the sole supplier for these customers. However, diversity of revenue from customers spread across various industries, segments and geographies leads to lower customer and industry concentration.

Liquidity: Adequate

Liquidity is strong marked by expected to generate cash accruals of over Rs 15 crore over the medium term against no repayment obligations. Group's bank limit utilization for fund-based liabilities was around 5% for the last twelve months ended September, 2022. Group plans on incurring a capex of Rs 10-12 Cr apart from routine capex of Rs 2-3 Cr and financed by internal accruals. Group has investments around Rs 75 Cr and cash and bank balance around Rs 19 Cr as on March 31,2022 which stood at Rs 61.95 Cr and Rs 8.60 Cr respectively as on September 30,2022.

Outlook: Stable

CRISIL Ratings believes the Chembond group will benefit over the medium term from its established market position and healthy relationship with key customers

Rating Sensitivity Factors**Upward Factors**

- Improvement in revenue growth and operating margin leading to sustained net cash accrual above Rs 25 crore.
- Sustained financial risk profile backed by strong capital structure, adequate liquidity, and robust debt protection metrics.

Downward Factors

- Subdued revenue growth, and operating margin sustaining below 4% over the medium term resulting in to lower net cash accruals
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Key Financial Indicators

Particulars	Unit	2022	2021
Revenue	Rs.Crore	350.6	274.7
Profit After Tax (PAT)	Rs.Crore	13.57	20.4
PAT Margin	%	3.9	7.4
Adjusted debt/adjusted networkth	Times	0.1	0.0
Interest coverage	Times	33.34	58.7

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 - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - 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.

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Annexure - Details of Instrument(s)

SIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity levels	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	3	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	9	NA	CRISIL BBB+/Stable

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Chembond Chemicals Limited	Fully consolidated	Parent company. Common promoters and significant operational and financial linkages
Chembond Clean Water Technologies Ltd	Fully consolidated	Step down subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond Water Technologies Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond Biosciences Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond Material Technologies Private Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond-Calvatis Industrial Hygiene Systems Ltd	Fully consolidated	Chembond owns majority stake in the company and asserts control. Common promoters and significant operational and financial linkages
Chembond Polymers and Materials Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond Water Technologies (Malaysia) Sdn. Bhd.	Fully consolidated	Wholly owned subsidiary of Chembond Water Technologies Ltd and step down subsidiary of Chembond. Common promoters and significant operational and financial linkages
Phiroze Sethna Pvt Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages
Gramos Chemicals India Pvt Ltd	Fully consolidated	Wholly owned subsidiary of Phiroze Sethna Pvt Ltd. and step down subsidiary of Chembond. Common promoters and significant operational and financial linkages
Chembond Distribution Ltd	Fully consolidated	Wholly owned subsidiary of Chembond. Common promoters and significant operational and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	9.0	CRISIL BBB+/Stable		--		--	02-11-21	CRISIL BBB+/Stable	30-06-20	CRISIL BBB+/Stable	CRISIL A-/Stable
					--		--	30-09-21	CRISIL BBB+/Stable		--	--
Non-Fund Based Facilities	ST	3.0	CRISIL A2		--		--	02-11-21	CRISIL A2	30-06-20	CRISIL A2	CRISIL A1
					--		--	30-09-21	CRISIL A2		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	3	HDFC Bank Limited	CRISIL A2
Cash Credit	9	HDFC Bank Limited	CRISIL BBB+/Stable

This Annexure has been updated on 31-Jan-2023 in line with the lender-wise facility details as on 17-Nov-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
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
Understanding CRISILs Ratings and Rating Scales

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