

Rating Advisory

July 10, 2018 | Mumbai

Diamines and Chemicals Limited

Advisory as on July 10, 2018

This rating advisory is provided in relation to the rating of Diamines and Chemicals Limited

The key rating sensitivity factors for the rating include:

- Improvement in operating margin
- Ability to develop and market new products
- Capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Diamines and Chemicals Ltd (DACL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If DACL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

DACL, established in 1976, commenced production in 1982. The company manufactures a range of ethylene amines and piperazine products at its plant in Vadodara, Gujarat.

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Rating Rationale

July 12, 2017 | Mumbai

Diamines and Chemicals Limited

Long-term rating upgraded to 'CRISIL BB+/Stable' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.44.35 Crore
Long Term Rating	CRISIL BB+/Stable (Upgraded from 'CRISIL BB-/Stable')
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the long-term bank facilities of Diamines and Chemicals Limited (DACL) to **'CRISIL BB+/Stable'** from 'CRISIL BB-/Stable', while reaffirming the short-term bank facility at 'CRISIL A4+'.

The upgrade reflects CRISIL's belief that the company will sustain its improved financial risk profile over the medium term. The debt protection metrics and liquidity have improved supported by reduction in debt following repayment of term debt. The interest coverage ratio has increased to 5.3 times in fiscal 2017 from 1.7 times in fiscal 2016 and is likely to remain at a similar level over the medium term. Furthermore, operating performance was much better fiscal 2017 as favourable raw material price movement led to an operating profitability of 26.1% against 12.6% in fiscal 2016. While the operating performance will remain susceptible to fluctuation in raw material prices and foreign exchange (forex) rates, the total outside liabilities to adjusted net worth (TOLANW) and liquidity are expected to be sustained despite modest debt-funded capital expenditure (capex), over fiscals 2018 and 2019.

The ratings reflect a long track record in the ethylene amines segment, and a healthy financial risk profile because of a moderate network, low TOLANW ratio, and robust debt protection metrics. These rating strengths are partially offset by working capital-intensive operations and susceptibility to volatility in raw material prices.

Analytical Approach

For arriving at the ratings, CRISIL had hitherto combined the business and financial risk profiles of DACL and its wholly owned subsidiary, Diamines Speciality Chemicals Ltd (DSCL). That was because both the companies, together referred to as the DACL group, were owned and managed by the same promoters and had business and financial linkages. However, since DSCL has been merged into DACL effective September 2016, CRISIL has now arrived at the ratings using a standalone approach.

Key Rating Drivers & Detailed Description

Strengths

* **Long industry track record:** The company is one of the major players in the specialty chemicals industry and is a leading manufacturer of piperazine (a member of the ethylene amines family) in India. Its promoters are well-qualified and have over 31 years of experience in the same line of business. The group's track record of catering to major pharmaceutical companies for over a decade underpins its superior product quality, established relationship with customers, and diversification in downstream products.

* **Healthy financial risk profile:** Net worth was moderate at Rs 34.3 crore while the TOLANW ratio was low at 0.5 times as on March 31, 2017. Healthy profitability in fiscal 2017 has led to a robust interest coverage ratio of 5.3 times.

Weakness

* **Working capital-intensive operations:** That's reflected in gross current assets of 174 days as on March 31, 2017, due to large inventory of around 109 days and receivables cycle of 81 days. The large inventory is on account of imports in March 2017.

* **Susceptibility to volatility in raw material prices:** Polyamine mix, which is the major raw material for the piperazine range, is a crude oil-based derivative and hence its price is susceptible to fluctuations in crude prices. The international market price of polyamine mix follows the petrochemicals cycle. The company maintains large inventory of raw material, which makes it vulnerable to raw material price fluctuations. High variation of the operating margin has impacted the financial risk profile, particularly liquidity. The extent of fluctuation in the operating margin will remain a rating sensitivity factor over the medium term.

Outlook: Stable

CRISIL believes DACL will continue to benefit over the medium term from its established market position. The outlook may be revised to 'Positive' in case of a significant increase in the scale of operations along with healthy operating profitability, leading to substantial cash accrual. The outlook may be revised to 'Negative' in case of a significant decline in cash accrual, a stretched working capital cycle, or large, debt-funded capex, leading to deterioration in liquidity.

About the Company

DACL, established in 1976, commenced production in 1982. The company manufactures a range of ethylene amines and piperazine products at its plant in Vadodara, Gujarat.

Profit after tax (PAT) was Rs 4.3 crore on net sales of Rs 33.0 crore in fiscal 2017, as against PAT of Rs 0.3 crore on net sales of Rs 34.0 crore in fiscal 2016.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Rating assigned with outlook
NA	Term loan	NA	NA	Jun-2018	0.52	CRISIL BB+/Stable
Na	Bank guarantee	NA	NA	NA	0.45	CRISIL A4+
Na	Cash credit	NA	NA	NA	11.0	CRISIL BB+/Stable
Na	Corporate loan	NA	NA	NA	6.78	CRISIL BB+/Stable
Na	Letter of credit	NA	NA	NA	4.0	CRISIL A4+
Na	Proposed longterm bank loan facility	NA	NA	NA	21.6	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/S T	39.9	CRISIL BB+/Stable		No Rating Change		No Rating Change	18-09-15	CRISIL BB-/Stable	16-09-14	CRISIL BB/Stable	CRISIL BB+/Stable
Non Fund-based Bank Facilities	LT/S T	4.45	CRISIL A4+		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A4+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	.45	CRISIL A4+	Bank Guarantee	.45	CRISIL A4+
Cash Credit	11	CRISIL BB+/Stable	Cash Credit	11	CRISIL BB-/Stable
Corporate Loan	6.78	CRISIL BB+/Stable	Corporate Loan	6.78	CRISIL BB-/Stable
Letter of Credit	4	CRISIL A4+	Letter of Credit	4	CRISIL A4+
Proposed Long Term Bank Loan Facility	21.6	CRISIL BB+/Stable	Proposed Long Term Bank Loan Facility	21.6	CRISIL BB-/Stable
Term Loan	.52	CRISIL BB+/Stable	Term Loan	.52	CRISIL BB-/Stable
Total	44.35	--	Total	44.35	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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