

By Online Submission

Sec/23-23/41  
Date: 12-07-2023

To,  
The General Manager,  
**National Stock Exchange of India Ltd.**  
Exchange Plaza,  
Plot no. C/1, G Block,  
Bandra-Kurla Complex  
Bandra (E), Mumbai - 400 051.  
NSE CODE: BODALCHEM

**Sub: Clarification on Credit Rating**

This has with reference to your E-mail dated 11<sup>th</sup> July 2023.

With reference to the above captioned subject, we have received your mail asking for clarification on followings.

**1. Reason for not notifying the Exchange, promptly and not later than 24 hours;**

**Clarification / Reply :** We would like to inform you that company has received Credit Rating of the Company from India Ratings & Research through mail on 27<sup>th</sup> June 2023 and we have submitted the same with the exchange on 28<sup>th</sup> June 2023, within 24 hours of receipt of the same. Copy of said email is enclosed herewith for your ready reference.

**2. In case of downward rating, reasons published by rating agency for such downward rating.**

**Clarification / Reply :** We herewith enclose rationale as published by India Ratings & Research for downward rating of the Company.

Thanking You,

**For, BODAL CHEMICALS LTD.**

Ashutosh B. Bhatt.  
Company Secretary



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## Ashutosh Bhatt

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**From:** AWCAdmin@indiaratings.co.in  
**Sent:** 27 June 2023 12:39  
**To:** Mayur Padhya; Finance  
**Cc:** avinash.poojari@indiaratings.co.in; Khushbu.Lakhotia@indiaratings.co.in  
**Subject:** Rating Letter for BLR–Bodal Chemicals Limited  
**Attachments:** BodalChemicalsLimited\_RatingLetter-15333.pdf

Dear Sir/Madam,

Please find attached the rating letter for 'BLR' issued by India Ratings. Please get in touch with the analyst in case of any issues.

Best Regards,

India Ratings and Research

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## India Ratings Downgrades Bodal Chemicals to 'IND A'/Negative and its CP to 'IND A1'

Jun 26, 2023 | Dyes And Pigments

India Ratings and Research (Ind-Ra) has downgraded Bodal Chemicals Limited's (BCL) Long-Term Issuer Rating to 'IND A' from 'IND A+'. The Outlook is Negative. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	FY29	INR6,390	IND A/Negative	Downgraded
Fund-based/non-fund-based working capital limit <sup>^</sup>	-	-	-	INR5,560	IND A/Negative/IND A1	Downgraded
Non-fund-based working capital limits	-	-	-	INR500 (increased from INR380)	IND A1	Downgraded
Commercial paper (CP)*	-	-	0-365 days	INR500	IND A1	Downgraded

\* Carved out of existing working capital facilities

The CP proceeds will be used for meeting working capital requirements/refinancing of debt/bridge finance/capex.

<sup>^</sup>Fund-based working capital is merged with fund-based/non-fund working capital

**ANALYTICAL APPROACH:** Ind-Ra continues to take a consolidated view of BCL and its wholly owned subsidiaries - Bodal Chemicals Trading Pvt. Ltd., Bodal Chemicals Trading (Shijiazhuang) Co. Ltd., Sen-er Boya Kimya Tekstil Sanayi Ve Ticaret Ltd. (Sen-er Boya) and Bodal Bangla Ltd - to arrive at the ratings on account of the strong operational and strategic linkages among them. Furthermore, all these entities have common founders, with different ownership structures, and operate in the same line of business. SPS Processors Pvt Ltd, an erstwhile 70% subsidiary, was amalgamated with BCL on August 2022.

The downgrade and Negative Outlook reflect the likelihood of a delay in BCL's deleveraging amid weak operating profitability.

## Key Rating Drivers

**Sharp Fall in Profitability in FY23; Muted Demand and Prices to keep EBITDA Subdued in Near Term:** BCL's consolidated operating EBITDA fell 39% yoy to INR1.3 billion in FY23 owing to the combined impact of a fall in demand as well as realisations. The sale volumes in the dye segment fell 31.9% yoy in FY23, while basic chemicals were down 12.7% yoy, as the end-user segments, including textiles and leather, suffered a demand slowdown in both domestic and overseas markets. This coupled with a decline in prices caused the consolidated revenue to drop by 23% yoy to INR15,743 million in FY23. Prices witnessed a secular fall during the year, leading to inventory losses. This along with higher input costs led to a fall in the EBITDA margin to 8.5% (FY22: 10.7%), against the management's expectations of the margins rising to over 12.8% during the last review.

Ind-Ra believes the muted demand environment coupled with an increase in supplies from China could prevent a significant recovery in prices 1HFY24. As a result, Ind-Ra expects the profitability to remain subdued in the near term, though the softening of prices of input such as sulphur and coal could offer some comfort. Thereafter, the gradual recovery in demand and prices and commencement of the benzene downstream plant are likely to lead to an improvement in profitability over FY25-FY26.

**Deleveraging to be Delayed:** The agency believes the lower-than-expected profitability is likely to delay the deleveraging, with net leverage likely to remain elevated in FY24 before gradually reducing FY25 onwards due to improvement in EBITDA and reduction in debt. BCL's ongoing a greenfield project in Sakhya (Gujarat) to diversify into specialty benzene downstream products, which was scheduled to begin operations by 4QFY23, has been delayed and is now likely to achieve commercial production by 3QFY24. Furthermore, the company has also reduced the benzene derivatives capacity to 63,000 metric tonnes per annum (mtpa) (from 79,000mtpa) due to unfavourable market conditions, particularly in the western markets, while the sulphuric acid project has been put on hold. BCL had already incurred capex of around INR2.8 billion on the project at FYE23, and further expenditure of INR2.7 billion is likely to be incurred in FY24, with some overruns, mainly on account of technological changes. In addition, the company also undertook capex of INR3.4 billion in FY23 for increasing its caustic soda capacity to 99,000mtpa (from 82,500mtpa) and commenced the project on time. The capex coupled with the fall in EBITDA led to the consolidated net leverage rising to 5.6x in FY23 (FY22: 3x), significantly higher than Ind-Ra's earlier expectations. The consolidated interest coverage (EBITDA/gross interest) fell to 3.25x in FY23 (FY22: 7.4x) and could remain subdued in FY24.

**Strong Market Position; Integrated Player with Long Track Record:** BCL is one of India's most integrated dyestuff companies and the largest manufacturer of dye intermediates. It offers a wide range of dyestuff products to a diverse customer base and has longstanding customer relationships. According to the management, the company has a market share of 3% and 13% in the global and domestic dyestuff markets, respectively, and 6% and 20% in the global and domestic dye intermediates markets, respectively. BCL has a strong backward integration, with almost 48% of the basic chemicals and 43% of the dye intermediates produced by the company being used in-house, providing it with cost advantages, operational synergies, and increased raw material security. The revenue share of dyestuff rose to 35% in FY23 (FY22: 33%), driven by BCL's increased focus on augmenting business-to-consumer sales. Dye intermediates contributed 26% to the FY23 revenue (FY22: 38%), while the balance was contributed by basic chemicals other chemical products. Exports accounted for 31% of the total sales in FY23 (FY21- FY22: 33%; FY20: 41%).

**Business Profile to Improve Post Capex Completion:** Upon commercialisation of the capex that is underway, the diversification of BCL's product portfolio into downstream products is likely to reduce its reliance on the volatile dyestuff segment, enhance cost efficiency and support raw material integration, thereby improving the margins. The expansion will also enable BCL to expand its existing end-user base to the growing pharmaceutical and agrochemicals sectors. At peak utilisation, the management expects the specialty benzene downstream derivatives project to generate a revenue of around INR3,200 million, with an EBITDA margin of 15%-18%, over FY25-FY26. Furthermore, with the upgradation and expansion, the caustic unit at Siel Chemical Complex (SCC) could potentially generate revenue of around INR3,000

million, with an EBITDA margin of 20%-25%, and bolster BCL's market position in chlor-alkali products, given SCC's leading market position in north India and its strong client base. Besides, the plant has a strong internal and adjoining consumption of chlorine.

**Liquidity Indicator - Adequate:** On a consolidated basis, BCL's average use of the bank limits was about 79% during the 12 months ended May 2023 and the company had unutilised fund-based limits of about INR764 million at end-May 2023, backed by sufficient drawing power. The availability of sufficient liquidity buffer remains a key rating monitorable, given the subdued performance. As of June 2023, BCL has usable sanctioned fund-based working capital limits of INR5.4 billion, 74% higher than the existing drawing power, providing a cushion in case of an increase in working capital requirements. The company's consolidated cash flow from operations turned positive at INR2,508 million in FY23 (FY22: negative INR311 million) due to a reduction in short-term borrowings, and Ind-Ra expects the cash flow from operations to remain positive in FY24. The free cash flow remained negative at INR974 million in FY23 (FY22: negative INR2,118 million) due to the large capex and might continue to be negative in FY24 due to the ongoing capex. For the balance capex of INR2.7 billion towards the benzene project, the company has tied up debt of INR2,033 million and the balance is likely to be funded through internals accruals. BCL has scheduled repayments of INR0.6 billion in FY24 and INR1.1 billion in FY25. The company has applied to the lenders for a revision in the repayment schedule in line with the revision in the commercial operations date of the project (the revised repayment schedule proposed by BCL to lenders is as follows - FY24: INR269 million; FY25: INR793 million and FY26: INR976 million; this is subject to lender approval). Ind-Ra believes BCL would have sufficient liquidity to meet the repayments. Furthermore, the management is in the process of monetising some non-core assets to shore up the liquidity in addition to a likely receipt of incentive towards the SCC project.

The net working capital cycle remained elongated but improved to 168 days in FY23, (FY22: 195; FY21: 209) owing to a decline in inventory days (FY23: 118 days; FY22: 141 days; FY21: 141 days) and receivable days (97 days; 105 days; 139 days). The inventory holding period reduced owing to a decline in volumes. The working capital cycle is likely to improve further in FY24 because of a continued reduction in the receivables and inventory days, along with a short working capital cycle in the upcoming benzene downstream and chlor alkali businesses. Therefore, Ind-Ra expects the working capital cycle to remain moderate in the medium term.

**Standalone Profile:** During FY23, BCL's standalone revenue and EBITDA declined to INR15,551 million (FY22: INR20,108 million, FY21: INR11,297 million) and INR1,211 million (INR2,241 million; INR829 million), respectively, while its net leverage improved to 5.6x (2.8 x; 5.2x) and the interest coverage improved to 4.6x (10.79x; 9.0x).

**Cyclicality and Volatile Earnings:** Although increased environmental compliance costs, rising manpower wages and reduced state support have improved the cost competitiveness of Indian manufacturers, the dyestuff industry is highly fragmented, competitive and cyclical. The prices of most inputs used by BCL, such as naphthalene, sulphur, caustic soda, aniline, and ethylene oxide, are volatile and some are linked to crude oil prices, resulting in quarterly volatility in margins. Furthermore, though the momentum of supply chain shifting away from China could become accelerated. Any increase in Chinese production remains a key risk, given its available and underutilised capacity. Also, the textile and paper sectors account for 50%-60% of its revenue, making it sensitive to industry cycles.

**Susceptible to Forex Fluctuations, Environmental Issues:** BCL is exposed to forex risks, and while the company has been hedging its forex exposure, it might not be always sufficient to protect margins in case of significant currency fluctuations. BCL reported some forex gains in the last three fiscals.

Furthermore, the dyestuff industry is highly regulated, given the major safety, health and environmental risks associated with it. Environmental laws have become increasingly stringent, causing companies to incur significant capital and operating costs to comply with the evolving norms. BCL's pollution control expenses have been around 1%-2% of sales in the recent past. The company's continued compliance with pollution control and environmental laws remains key to its sustainable performance.

## Rating Sensitivities

**Positive:** Successful completion and ramp-up for the ongoing capex along with a significant and sustained improvement in profitability, leading to the consolidated net leverage reducing below 3.25x, on a sustained basis, could lead to the Outlook being revised back to Stable.

**Negative:** Lower-than-expected profitability and/or any further delay in the commissioning or cost overruns in the ongoing capex, leading to reduced visibility of the consolidated net leverage falling below 3.25x and/or any deterioration in the liquidity position on a sustained basis could lead to a negative rating action.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ABFRL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please [click here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please [click here](#).

## Company Profile

BCL is a leading producer of dye intermediates and dyestuffs with a presence in reactive, acid, and direct dyes. Its manufacturing facilities are spread across 10 locations in India, with installed capacities of 33,000mtpa of dyestuff intermediates; 45,000mtpa of dyestuff (including liquid dyes), 226,000mtpa of basic chemicals and 82,500mtpa of caustic soda. It commenced operations in 1989 and was listed in 2006.

### FINANCIAL SUMMARY - CONSOLIDATED

Particulars	FY23	FY22	FY21
Revenue (INR million)	15,742	20,506	12,264
EBITDA (INR million)	1,333	2196	866
EBITDA margin (%)	8.4	10.7	7.1
Total debt (INR million)	6,975	6755	4,558
Gross interest coverage (x)	3.25	7.44	5.2
Net leverage (x)	5.57	3.03	5.1

Source: BCL, Ind-Ra

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook			
				28 July 2022	29 July 2021	28 January 2021	13 January 2021
Issuer rating	Long-term	-	IND A/Negative	IND A+/Negative	IND A+/Negative	IND A+/Stable	IND A+/Stab
CP	Short-term	INR500	IND A1	IND A1+	IND A1+	IND A1+	IND A1+
Fund/non-fund based working capital limit	Long-term/Short-term	INR5560	IND A/Negative/IND A1	IND A+/Negative / IND A1+	IND A+/Negative / IND A1+	IND A+/Stable / IND A1+	
Non-fund-based working capital limit	Short-term	INR500	IND A1	IND A1+	IND A1+	IND A1+	IND A1+
Term loans	Long-term	INR6,390	IND A/Negative	IND A+/Negative	IND A+/Negative	-	-

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of Instruments

Instrument Type	Complexity Indicator
CP	Low
Fund based/non-fund based working capital limits	Low
Non-fund-based working capital limits	Low
Fund-based working capital limits	Low
Term loans	Low

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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**APPLICABLE CRITERIA**

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**Evaluating Corporate Governance****The Rating Process****Short-Term Ratings Criteria for Non-Financial Corporates****Corporate Rating Methodology****DISCLAIMER**

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