

Rating Rationale

May 10, 2024 | Mumbai

Dorf-Ketal Chemicals India Private Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'

Rating Action

Total Bank Loan Facilities Rated	Rs.1228.6 Crore
Long Term Rating	CRISIL AA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (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 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank loan facilities of Dorf-Ketal Chemicals India Pvt Ltd (Dorf-Ketal; part of the Dorf Ketal group).

The reaffirmation takes into consideration the announcement made by Dorf-Ketal to acquire the US based specialty chemical manufacturer – Impact Fluid Solutions LP (IFSL) entirely funded through debt. The transaction is expected to be completed by May 2024 post receipt of required regulatory approvals. IFSL develops, manufactures and sells additives for oil and gas operators, fluid companies, and oilfield service providers worldwide. These products find application at the time of drilling oil well, improving the flow efficiency of hydrocarbons in wells in challenging geographies. The acquisition will give Dorf-Ketal access to products critical to drilling operations in geographies where it has limited presence. The company will also get access to clients in Mexico and North Sea exploration and production wells where it can cross-sell its existing products.

The rating reaffirmation also takes into account the healthy operating performance of the company in fiscal 2024 with revenue growing by 40% to Rs 5,495 crore from Rs 3,926 crore in fiscal 2023. This growth was primarily driven by additional revenue from the acquisition of Fluid Energy and Clariant's North American (NORAM) Land Oil business in fiscal 2024. The Ebitda margin of the company is expected to remain healthy at 17.2% in fiscal 2024, though marginally lower than 19.1% in fiscal 2023, as the acquired business of Clariant NORAM is a lower margin business. The ratings also factor in the healthy financial risk profile of the group with strong debt protection metrics. The debt-funded acquisition of IFSL, debt protection metrics may weaken in the near term; however, net debt/EBITDA and interest coverage ratio are expected to remain healthy at less than 1.75 times and over 6 times in fiscal 2025.

The ratings continue to reflect the established market position of the Dorf Ketal group, its strong research and development (R&D) capability and a healthy financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices and large working capital requirement.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Dorf-Ketal and its subsidiaries, Dorf Ketal Chemicals LLC, USA; Dorf Ketal Chemicals, Brazil; Dorf Ketal BV; Dorf Ketal Chemicals FZE; Dorf Ketal Chemicals Pte Ltd; Dorf Ketal Chemicals Shanghai Ltd; Dorf Ketal Chemicals SDN BHD and Khyati Chemicals. All these entities, collectively referred to as the Dorf Ketal group, have significant business and financial synergies.

CRISIL Ratings has amortized goodwill over 5-10 years beginning from the year of acquisition and has adjusted profit after tax (PAT) and networth accordingly.

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:** The market position is supported by expertise in the specialty chemicals segment, strong brand and clientele and diverse geographic presence. With track record of over two decades in the process and specialty chemicals business, the group is among the leading players in the domestic market and serves large clients such as Vedanta Ltd, ExxonMobil Corporation, Reliance Industries Ltd and Indian Oil Corporation Ltd. The group is a preferred supplier of various chemicals in the US, the Middle East, Brazil and Southeast Asia. Dorf-Ketal has acquired new businesses in the fuel additive and oilfield segments over the past two years. Strong product portfolio, diverse end-user industries and longstanding relationships with customers will continue to support the business. With the acquisition of the synthetic and modified acids division of Fluid Energy, the company has established its presence in the modified acids segment, which has improved the revenue profile with enhanced product and customer diversity and varied industry applications. The acquisition of IFSL will add a range of products to the existing portfolio which are used to improve drilling efficiency. Through enhanced product offerings, the company will be able to better synergize their offerings in the oilfield segment.
- **Strong R&D capability:** The group's success is underpinned by its ability to meet customer requirements and focus on offering customized solutions. It has become a strong competitive player because of focus on technology and R&D. It has over 600 process and product patents, including those acquired from Fluid Energy, UOP Inc, DuPont and Johnson Mathey. Onsite services include product applications, field trials, checks on chemical dosage rates and troubleshooting of environment, health and safety issues. The group has developed its unit at Taloja, Maharashtra, as an R&D hub for its product pipeline. Strong process chemistry skills and customized products and solutions will continue to benefit the group.
- **Healthy financial risk profile:** The financial risk profile is supported by healthy cash accrual and moderate capital expenditure (capex) plans post fiscal 2024. While overall debt is estimated to have increased to Rs 1,700 crore and gearing to around 0.7 time as on March 31, 2024, owing to debt addition to fund the acquisitions and increased dependence on working capital limit, the net debt to Ebitda ratio remains comfortable below 1 time. The group will undertake debt of USD 156 million to fund the acquisition of IFSL. The debt is payable in 16 quarterly installments after moratorium of 12 months. The group plans to focus on integrating and ramping up the acquired businesses over the next 1-2 years. Net debt/EBITDA is expected below 1.75 times and interest coverage ratio healthy over 6 times over the medium term.

Weaknesses:

- **Susceptibility to volatility in raw material prices:** Profitability has been volatile in the past owing to fluctuations in raw material prices and high salaries and incentives. Crude oil derivatives comprise a significant portion of the raw materials. Hence, profitability is vulnerable to volatility in crude oil prices. While the group has the ability to pass on price increases, contractual businesses are for longer tenure (over one year), rendering the operating margin susceptible to any steep variation in input cost.
- **Large working capital requirement:** Gross current assets are estimated at a sizeable 220-230 days as on March 31, 2024, driven by inventory at overseas stocking points to ensure timely supply to customers and an extended receivables cycle. Inventory and receivables are estimated at 100 days and 89 days, respectively, as on March 31, 2024. Nevertheless, driven by expected steady revenue growth over the medium term, working capital requirement will remain large and its prudent management will be critical.

Liquidity: Strong

Cash accrual is estimated at more than Rs 650 crore in fiscal 2024 and should improve further from fiscal 2025, which will sufficiently cover annual debt obligation of Rs 200-300 crore and yearly maintenance capex of Rs 200 crore. Utilization of fund-based limit was 58% on average over the six months through March 2024. Liquidity is further supported by cash and equivalent over Rs 750 crore as on March 31, 2024.

Outlook: Stable

The Dorf Ketal group will continue to benefit from steady demand, healthy market position, diversified product segments, established clientele and strong R&D and operating capabilities. The financial risk profile will remain supported by healthy annual cash accrual and absence of large, debt-funded capex or acquisition.

Rating Sensitivity Factors

Upward factors:

- Revenue growth of 15-20% and stable profitability
- Sustenance of healthy financial risk profile with comfortable debt protection metrics
- Build-up and sustenance of surplus liquidity

Downward factors:

- Decline in revenue and fall in operating margin to 14-15%
- Sizeable, debt-funded capex or acquisition or significant stretch in the working capital cycle weakening the debt protection metrics, with net debt to Ebitda ratio above 2.5 times
- Larger-than-expected cash outflow or reduction in liquid surplus by way of remuneration, capital reduction or high dividend payout

About the Group

Dorf-Ketal, incorporated in 1992, manufactures process chemicals, specialty catalysts and additives in the niche product segment of hydrocarbons used in refineries and petrochemical plants. Its domestic manufacturing facilities are in Mundra and Dahej, Gujarat; and Dadra and Lote, Maharashtra. The group also has manufacturing facilities at Nova Santa Rita City in Brazil and at Louisiana, USA. Mr Subodh Menon and Mr Sudhir Menon are the promoters.

Dorf Ketal Chemicals LLC (USA), Dorf Ketal Chemicals (Brazil) and Dorf Ketal BV (the Netherlands) market and supply process chemicals and provide technical support to clients in their regions. Dorf Ketal Chemicals LLC exclusively markets specialty catalysts in the US.

With effect from April 1, 2016, the wholly owned subsidiaries, Dorf Ketal Speciality Catalyst Pvt Ltd, Filtra Catalysts and Chemicals Ltd, Perfect Scales Pvt Ltd and Sudha Organics Pvt Ltd, were merged with Dorf Ketal.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs.Crore	3926	2678
Adjusted PAT	Rs.Crore	441	245
Adjusted PAT margin	%	11.2	9.1
Adjusted debt/adjusted networth	Times	0.73	0.34
Interest coverage	Times	14.71	39.34

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.

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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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Working Capital Loan	NA	NA	NA	155.4	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	235	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	109	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	56	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	200	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	175	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	70	NA	CRISIL AA/Stable
NA	Working Capital Loan*	NA	NA	NA	120	NA	CRISIL AA/Stable
NA	Non-Fund Based Limit	NA	NA	NA	50	NA	CRISIL A1+
NA	Long Term Loan	NA	NA	17-Feb-2026	16.95	NA	CRISIL AA/Stable
NA	Long Term Loan	NA	NA	18-Jan-2027	28.37	NA	CRISIL AA/Stable
NA	Proposed Term Loan	NA	NA	NA	12.88	NA	CRISIL AA/Stable

**Interchangeable between fund-based and non-fund-based limits*

Annexure - List of Entities Consolidated

Name of the subsidiary, location	Extent of consolidation	Reason for consolidation
Dorf Ketal Chemicals LLC, USA	Full	100% subsidiary; business linkages
Dorf Ketal Brasil Ltda, Brazil	Full	95% subsidiary; business linkages

Dorf Ketal BV, Netherlands	Full	100% subsidiary; business linkages
Dorf Ketal Chemicals FZE, UAE	Full	100% subsidiary; business linkages
Dorf Ketal Chemicals Pte Ltd, Singapore	Full	100% subsidiary; business linkages
Dorf Ketal Chemicals SDN BHD, Malaysia	Full	100% subsidiary; business linkages
Dorf Ketal Chemicals Shanghai Ltd, China	Full	100% subsidiary; business linkages
Flowchem Technologies LLC, USA	Full	100% subsidiary; business linkages
Khyati Chemicals Pvt Ltd	Full	100% subsidiary; business linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1178.6	CRISIL AA/Stable		--	08-03-23	CRISIL AA/Stable	28-06-22	CRISIL AA-/Positive		--	CRISIL AA-/Stable
			--		--	17-01-23	CRISIL AA/Stable	02-05-22	CRISIL AA-/Positive		--	--
			--		--		--	28-02-22	CRISIL AA-/Stable		--	--
Non-Fund Based Facilities	ST	50.0	CRISIL A1+		--	08-03-23	CRISIL A1+	28-06-22	CRISIL A1+		--	CRISIL A1+
			--		--	17-01-23	CRISIL A1+	02-05-22	CRISIL A1+		--	--
			--		--		--	28-02-22	CRISIL A1+		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Long Term Loan	28.37	HDFC Bank Limited	CRISIL AA/Stable
Long Term Loan	16.95	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Stable
Non-Fund Based Limit	50	Kotak Mahindra Bank Limited	CRISIL A1+
Proposed Term Loan	12.88	Not Applicable	CRISIL AA/Stable
Working Capital Loan	155.4	Kotak Mahindra Bank Limited	CRISIL AA/Stable
Working Capital Loan ^{&}	235	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA/Stable
Working Capital Loan ^{&}	109	DBS Bank Limited	CRISIL AA/Stable
Working Capital Loan ^{&}	56	DBS Bank Limited	CRISIL AA/Stable

Working Capital Loan ^{&}	200	ICICI Bank Limited	CRISIL AA/Stable
Working Capital Loan ^{&}	175	JP Morgan Chase Bank N.A.	CRISIL AA/Stable
Working Capital Loan ^{&}	70	HDFC Bank Limited	CRISIL AA/Stable
Working Capital Loan ^{&}	120	Citibank N. A.	CRISIL AA/Stable

&Interchangeable between fund-based and non-fund-based limits

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 rating short term debt
CRISILs Criteria for Consolidation

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