

Rating Rationale

June 03, 2022 | Mumbai

Nirma Limited

'CRISIL AA/Stable' assigned to Non Convertible Debentures; Rating outlook revised to 'Stable'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.2800 Crore (Reduced from Rs.5400 Crore)
Long Term Rating	CRISIL AA/Stable (Outlook revised from 'Negative'; Rating Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.150 Crore Non Convertible Debentures	CRISIL AA/Stable (Assigned)
Rs.310 Crore (Reduced from Rs.400 Crore) Non Convertible Debentures	CRISIL AA/Stable (Outlook revised from 'Negative'; Rating Reaffirmed)
Rs.900 Crore Perpetual Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Negative'; Rating Reaffirmed)
Rs.1500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL AA/Stable'** rating to the Rs 150 crore Non-Convertible Debentures (NCDs) of Nirma Limited (Nirma). The outlook on the existing long-term bank facilities and debt instruments of Nirma has been revised to **'Stable'** from **'Negative'** while reaffirming the ratings at "CRISIL AA/CRISIL AA-". The ratings on short-term bank facilities and commercial paper have been reaffirmed at **'CRISIL A1+'**.

The rating on NCDs of Rs 90 crore (refer Annexure: Details of ratings withdrawn) has been **withdrawn** on the company's request, as no instruments were placed against these. Also ratings on Rs 2,600 crore of bank loan facilities have been withdrawn on the company's request and on receipt of 'No-due Certificate' from its bankers. The action is in line with CRISIL Ratings' policy on withdrawal of ratings.

The revision in outlook reflects CRISIL's expectation that Nirma is likely to sustain improvement in its credit risk profile over the medium term. Nirma group undertook significant deleveraging exercise last fiscal. In absence of any large major debt funded growth plans, Nirma is likely to maintain healthy leverage position (marked by net debt to EBITDA of upto 2 times) over the medium term. Furthermore, operating performance is likely to remain healthy over the medium term.

Nirma group (mainly includes Nirma, Nuvoco Vistas Corporation Ltd [NVCL; rated 'CRISIL AA/CRISIL AA-/Stable/CRISIL A1+'] and Niyogi Enterprises Pvt Ltd [NEPL]) initiated the deleveraging exercise in August 2021 wherein NVCL raised Rs. 1500 crores through fresh issue of equity shares and NEPL raised Rs. 3500 crores from the offer for sale for the shares of NVCL. Subsequently, preference shares of NEPL subscribed by Nirma were partly redeemed to the extent of Rs. 1800 crores whose proceeds were utilized by Nirma for prepayment of debt leading to improvement of the debt protection metrics with net debt to EBITDA estimated at ~1.1 times in fiscal 2022 compared to 2.4 times during the previous fiscal.

In terms of operating performance during fiscal 2022, Nirma's standalone revenue grew by ~25% (~20% on consolidated basis) supported by lower base of previous fiscal and steep rise in realisations across products. However, the operating margin moderated to ~24% from 26.5% during the period due to higher input cost such as of coal and chemicals. The overseas subsidiary (Searles Valley Minerals Inc, USA – SVM) was impacted by the input cost pressures during the fiscal leading to company breaking even on an operating level.

The rating also factors diversified business risk profile of Nirma, backed by its established market position in the domestic soda ash and soaps and detergent businesses. Moreover, forward and backward integration, coupled with various cost initiatives, helps the company in commanding better profit margin. These strengths are partially offset by vulnerability of the business to price fluctuations owing to the commoditized nature of the chemicals business.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of Nirma, Karnavati Holding Inc, USA (holding company of Searles Valley Minerals Inc, USA, soda ash operations) and its subsidiaries, as it is wholly owned by Nirma. This is because all these entities belong to the Nirma group, are in the same business and have common management.

Furthermore, CRISIL Ratings has accorded 50% equity content to the perpetual NCDs issued in July 2017. This implies that in CRISIL Ratings' analysis of the capital structure and financial ratios, 50% of the principal amount is treated as equity and the remaining as debt. CRISIL Ratings has rated the perpetual NCDs one notch lower than other traditional long-term bonds, in line with its criteria for rating corporate sector hybrids. This is based on the instrument's feature that allows flexibility to defer distribution payments and the likelihood of deferral, if required.

The rationale for an 'intermediate equity content' stems from the long tenure of the instrument, presence of a strong and legally binding replacement capital covenant (RCC) that enhances permanence of equity, and its subordinate position in the capital structure with flexibility to defer dividend distribution, if called upon. Furthermore, the instrument has similar characteristics as debt, including high fixed coupon, step-up of coupon up to 200 basis points (bps; 100 bps equals 1 percentage point), and first-call option after five years.

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 market position in the domestic soda ash and soaps and detergents businesses, supported by significant backward integration**

Nirma is among the largest players in the domestic soaps and detergents segment. Backward integration is a major strategic strength. The company manufactures key raw materials, including soda ash and linear alkyl benzene (LAB), which are used to make detergents. Captive production of raw materials ensures timely and adequate supply, and facilitates greater control over quality and raw material cost.

- **Diversity in business risk profile and geographical presence**

Nirma has diversified its revenue profile through a wider geographical reach with capacities in India and the USA. For India operations too, revenue and profitability are well diversified, across soda ash, soaps and detergents, caustic soda and other industrial chemicals.

In fiscal 2022, the demand for consumer products has remained healthy, along with recovery in demand and prices for industrial products such as soda ash and caustic soda. The operating margin benefits from integrated operations and has remained between 24-26% over the previous three fiscals on standalone basis. The operating margin in the overseas business was severely impacted in the last fiscal on account of elevated input costs. Operating margin is expected to remain range bound in fiscal 2023 as the improvement in realization for the commodities would be offset by the inflationary cost pressures.

- **Financial risk profile strengthened through deleveraging**

The debt-funded acquisition by NVCL had constrained the financial risk profile of the company. As on March 31, 2021 on consolidated basis Nirma had leverage (in terms of net debt to earnings before interest, tax, depreciation and amortisation (EBITDA)) of about 2.4 times and the interest cover was about 4.6 times in fiscal 2021. However, with the NVCL's IPO, the leverage has reduced.

As on March 31, 2022, net debt to EBITDA has improved to around 1.1 times with interest cover improving above 6 times in fiscal 2022. With no major capital expenditure (capex; *around Rs 300 crore capex in fiscal 2023*) plans in existing business, the leverage levels are expected to sustain. However, the leverage would also depend on any debt-funded acquisition over the medium term by Nirma and, therefore, remains a monitorable.

Weakness:

- **Vulnerability of the chemicals segment to price fluctuations and cyclicality**

In the past few years, the revenue mix has changed significantly towards soda ash, caustic soda and LAB, thereby increasing the susceptibility to fluctuation in prices, which are linked to global markets.

Liquidity: Strong

Liquidity is primarily driven by Nirma's financial flexibility to raise short- and long-term debt at short notice, and at competitive rates. The liquidity position is supported by moderately utilised working capital limits and healthy liquidity of around Rs 570 crore on standalone level. In fiscal 2023, Nirma is expected to generate accrual of around Rs 1,200-1300 crore, against debt repayment of Rs 600-700 crore. Surplus accrual along with the liquid fund balance will be used towards deleveraging in the absence of capex.

Outlook: Stable

The outlook signifies that the financial risk profile has strengthened with deleveraging in the Nirma group supported by its healthy business risk profile

Rating Sensitivity factors

Upward factors:

- Significant improvement in business risk profile, driven by increase in market share, sustenance of consolidated operating profitability of more than 20% supported by improvement in US operations
- Significant and sustainable improvement in leverage (net-debt to EBITDA)

Downward factors:

- Deterioration in business performance, with consolidated operating profitability below 15%
- Sustained increase in leverage (net-debt to EBITDA) above 2.5-3x due to high capex or acquisition

About the Company

Nirma, set up by Dr Karsanbhai K Patel in 1980 to manufacture detergents, expanded its operations to soaps, chemicals and processing of minerals. It has plants in Searles Valley, USA, and Mehsana, Ahmedabad, Vadodara and Bhavnagar in Gujarat.

The largest soda ash manufacturer in India, Nirma acquired the California-based natural soda ash producer, Searles Valley Minerals Inc, in fiscal 2008, which has manufacturing facilities in Argus, Trona and Westend in USA.

In fiscal 2022, on a standalone basis operating income stands at Rs 6480 crore with a profit after tax (PAT) of Rs 546 crore compared to Rs 5073 crore and Rs 532 respectively in the previous fiscal.

Key Financial Indicators*

Particulars	Unit	2021	2020
Revenue	Rs.Crore	7478	7809
Profit After Tax (PAT)	Rs.Crore	491	779
PAT Margin	%	6.6	10.0
Adjusted debt/adjusted networkth	Times	0.6	0.7
Interest coverage	Times	4.6	3.73

*CRISIL Ratings-adjusted consolidated financials.

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. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. 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)	Complexity Level	Rating assigned with outlook
INE091A08149	Perpetual non-convertible debentures	6-Jul-17	9.50	6-Jul-77	900	Highly Complex	CRISIL AA-/Stable
INE091A07182	Non-convertible debentures	2-Jun-20	7.75%	2-Jun-23	310	Simple	CRISIL AA/Stable
NA	Non-convertible debentures#	NA	NA	NA	150	NA	CRISIL AA/Stable
NA	Commercial Paper	NA	NA	7-365 days	1500	NA	CRISIL A1+
NA	Cash Credit^	NA	NA	NA	150	NA	CRISIL AA/Stable
NA	Cash Credit\$	NA	NA	NA	100	NA	CRISIL AA/Stable
NA	Cash Credit*	NA	NA	NA	445	NA	CRISIL AA/Stable
NA	Cash Credit	NA	NA	NA	805	NA	CRISIL AA/Stable
NA	Letter of credit & Bank Guarantee	NA	NA	NA	400	NA	CRISIL A1+
NA	Term Loan	Feb-20	NA	Feb-25	250	NA	CRISIL AA/Stable
NA	Term Loan	Mar-20	NA	Feb-25	450	NA	CRISIL AA/Stable
NA	Term Loan	Mar-20	NA	Sep-25	200	NA	CRISIL AA/Stable

*Interchangeable with letter of credit and bank guarantee to the extent of Rs 445 crore

^Interchangeable with inland/import letter of credit to the extent of Rs 50 crore

\$Interchangeable with bank guarantee to the extent of Rs 40 crore

#Yet to be issued

Annexure – Details of Ratings withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Crore)	Complexity Level
NA	Non-convertible debentures#	NA	NA	NA	90	NA
NA	Term Loan	Aug-16	NA	Jul-26	1500	NA
NA	Term Loan	Feb-20	NA	Dec-25	600	NA
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	500	NA

#Yet to be issued

Annexure – List of entities consolidated

Name of entity consolidated	Extent of consolidation	Rationale for consolidation
Karnavati Holding Inc.	Full consolidation	Subsidiary
Searles Valley Minerals Inc.	Full consolidation	Subsidiary
Searles Valley Minerals Europe	Full consolidation	Subsidiary

Searles Domestic Water Company LLC	Full consolidation	Subsidiary
Trona Railway Company LLC	Full consolidation	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	5000.0	CRISIL AA/Stable		--	01-08-21	CRISIL AA/Negative	31-07-20	CRISIL AA/Negative	22-02-19	CRISIL AA/Stable	CRISIL AA/Stable
			--		--		--	27-05-20	CRISIL AA/Watch Developing		--	--
			--		--		--	02-04-20	CRISIL AA/Watch Developing		--	--
			--		--		--	19-03-20	CRISIL AA/Watch Developing		--	--
			--		--		--	28-02-20	CRISIL AA/Watch Developing		--	--
Non-Fund Based Facilities	ST	400.0	CRISIL A1+		--	01-08-21	CRISIL A1+	31-07-20	CRISIL A1+	22-02-19	CRISIL A1+	CRISIL A1+
			--		--		--	27-05-20	CRISIL A1+		--	--
			--		--		--	02-04-20	CRISIL A1+		--	--
			--		--		--	19-03-20	CRISIL A1+		--	--
			--		--		--	28-02-20	CRISIL A1+		--	--
Commercial Paper	ST	1500.0	CRISIL A1+		--	01-08-21	CRISIL A1+	31-07-20	CRISIL A1+	22-02-19	CRISIL A1+	CRISIL A1+
			--		--		--	27-05-20	CRISIL A1+		--	--
			--		--		--	02-04-20	CRISIL A1+		--	--
			--		--		--	19-03-20	CRISIL A1+		--	--
			--		--		--	28-02-20	CRISIL A1+		--	--
Non Convertible Debentures	LT	460.0	CRISIL AA/Stable		--	01-08-21	CRISIL AA/Negative	31-07-20	CRISIL AA/Negative	22-02-19	CRISIL AA/Stable	CRISIL AA/Stable
			--		--		--	27-05-20	CRISIL AA/Watch Developing		--	--
			--		--		--	19-03-20	Withdrawn		--	--
			--		--		--	28-02-20	CRISIL AA/Watch Developing		--	--
Perpetual Non Convertible Debentures	LT	900.0	CRISIL AA-/Stable		--	01-08-21	CRISIL AA-/Negative	31-07-20	CRISIL AA-/Negative	22-02-19	CRISIL AA-/Stable	CRISIL AA-/Stable
			--		--		--	27-05-20	CRISIL AA-/Watch Developing		--	--
			--		--		--	02-04-20	CRISIL AA-/Watch Developing		--	--
			--		--		--	19-03-20	CRISIL AA-/Watch Developing		--	--
			--		--		--	28-02-20	CRISIL AA-/Watch Developing		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Cash Credit*	150	CRISIL AA/Stable
Cash Credit	75	CRISIL AA/Stable
Cash Credit[^]	150	CRISIL AA/Stable
Cash Credit*	200	CRISIL AA/Stable
Cash Credit^{\$}	100	CRISIL AA/Stable

Cash Credit	465	CRISIL AA/Stable
Cash Credit	265	CRISIL AA/Stable
Cash Credit*	45	CRISIL AA/Stable
Cash Credit*	50	CRISIL AA/Stable
Letter of credit & Bank Guarantee	50	CRISIL A1+
Letter of credit & Bank Guarantee	20	CRISIL A1+
Letter of credit & Bank Guarantee	110	CRISIL A1+
Letter of credit & Bank Guarantee	45	CRISIL A1+
Letter of credit & Bank Guarantee	25	CRISIL A1+
Letter of credit & Bank Guarantee	25	CRISIL A1+
Letter of credit & Bank Guarantee	100	CRISIL A1+
Letter of credit & Bank Guarantee	25	CRISIL A1+
Proposed Long Term Bank Loan Facility	500	Withdrawn
Term Loan	1500	Withdrawn
Term Loan	600	Withdrawn
Term Loan	250	CRISIL AA/Stable
Term Loan	450	CRISIL AA/Stable
Term Loan	200	CRISIL AA/Stable

*Interchangeable with letter of credit and bank guarantee to the extent of Rs 445 crore

^Interchangeable with inland/import letter of credit to the extent of Rs 50 crore

§Interchangeable with bank guarantee to the extent of Rs 40 crore

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 Fast Moving Consumer Goods Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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