

Press Release

KDAC CHEM PRIVATE LIMITED

15 December, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 60.22 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed its long-term rating of '**SMERA B+** (read as SMERA B plus) and short term rating of '**SMERA A4** (read as SMERA A four) on the Rs. 60.22 crore bank facilities of KDAC Chem Private Limited (KCPL). The outlook is '**Stable**'.

KCPL (the erstwhile Dhruv Transchem Private Limited) is a Vadodara-based company incorporated in 2003 by Mr. Hasmukh Shah and Mr. Tansukhrai Gaur. The company is engaged in the manufacture of aromatic chemicals and has its manufacturing unit at Nadesari, Vadodara. The company's operating capacity is 4000 tonnes per annum.

Key Rating Drivers

Strengths

- **Experienced Management**

KCPL is a Gujarat-based company, incorporated in 2003. The Directors, Mr. Hasmukh Shah, and Mr. Tansukhrai Gaur possess more than three decades of experience in the chemical industry derived through KCPL and other group companies including Ketul Chem Private Limited and Baghban Agencies Private Limited among others.

Weaknesses

- **Decline in revenues and profitability**

KCPL registered a decline in revenue during the period under study (FY2015-FY2017) due to decline in prices of aromatic chemicals. In FY2017, the company registered a revenue of Rs.47.22 crore as against Rs. 51.68 crore in FY2016 and Rs. 55.90 crore in FY2015. The operating margins (EBIDTA) plummeted to 19.94 per cent in FY2017 from 29.31 per cent in FY2016. The profit after tax (PAT) margin fell to 2.89 per cent in FY2017 from 8.81 per cent in FY2016. This was due to low bargaining power of the company with its vendors and stiff competitive intensity.

- **Average financial risk profile**

The average financial risk profile could be attributable to negative tangible net worth of Rs. 4.74 crore in FY2017 and negative Rs. 6.10 crore in FY2016. This is mainly due to accumulated losses. The interest coverage ratio (ICR) stood moderate at 2.13x times in FY2017 as against 2.63x times in FY2016. The debt service coverage ratio (DSCR) stood at 2.23x times in FY2017 as against 1.04x times in FY2016.

- **Working capital intensive operations**

KCPL's operations are capital intensive with Gross Current Assets (GCA) days rising significantly to 216 in FY2017 as against 147 in FY2016. This is on account of inventory holding of 61 days in FY2017 as against 43 days in FY2016 and high debtors of 90 days in FY2017 as against 54 days in FY2016. The average working capital limit utilisation has been moderate at ~60 per cent in the last six months ended October 2017.

- **Exposure to foreign exchange fluctuations**

Exports in FY2017 to Europe and USA constituted 25 per cent of sales. The company is thus exposed to forex fluctuation risk. However, the company hedges 80 per cent of its exposure.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of KCPL to arrive at the rating.

Outlook: Stable

SMERA believes that KCPL will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case of substantial and sustainable growth in revenue and profitability resulting in improved financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of continued decline in revenues and profitability, resulting in further deterioration in the financial risk profile or liquidity position.

About the Rated Entity - Key Financials

For FY2017, KCPL reported a net profit after tax (PAT) of Rs. 1.37 crore on operating income of Rs.47.22 crore as against PAT of Rs. 4.55 crore on operating income of Rs. 51.68 crore in the previous year. The net worth stood negative at Rs. 4.74 crore as on 31 March, 2017 as against negative Rs. 6.10 crore in the previous year.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
08-Sep-2016	Corporate loan	Long Term	INR 4.95	SMERA B+ / Stable (Upgraded)
	Term Loan	Long Term	INR 7.58	SMERA B+ / Stable (Upgraded)
	Cash Credit*#	Long Term	INR 9.00	SMERA B+ / Stable (Upgraded)
	Working Capital Term Loan	Long Term	INR 19.74	SMERA B+ / Stable (Upgraded)
	Bank Guarantee	Short Term	INR 0.50	SMERA A4 (Reaffirmed)
	Credit Exposure Limit	Short Term	INR 0.12	SMERA A4 (Reaffirmed)
	Proposed Facilities	Long Term	INR 18.33	SMERA B+ / Stable (Assigned)

	Funded Interest Term Loan (FITL)	Long Term	INR 5.30	SMERA B+ / Stable (Withdrawn)
26-Nov-2015	Corporate Loan	Long Term	INR 5.75	SMERA B / Stable (Upgraded)
	Term Loan	Long Term	INR 8.81	SMERA B / Stable (Upgraded)
	Funded Interest Term Loan (FITL)	Long Term	INR 5.30	SMERA B / Stable (Upgraded)
	Cash Credit*#	Long Term	INR 9.00	SMERA B / Stable (Upgraded)
	Working Capital Term Loan	Long Term	INR 30.74	SMERA B / Stable (Upgraded)
03-Dec-2014	Bank Guarantee	Short Term	INR 0.50	SMERA A4 (Upgraded)
	Credit Exposure Limit	Short Term	INR 0.12	SMERA A4 (Upgraded)
	Corporate Loan	Long Term	INR 5.75	SMERA D (Assigned)
	Term Loan	Long Term	INR 8.81	SMERA D (Assigned)
	Funded Interest Term Loan (FITL)	Long Term	INR 5.30	SMERA D (Assigned)
	Cash Credit	Long Term	INR 9.00*#	SMERA D (Assigned)
	Working Capital Term Loan	Short Term	INR 30.74	SMERA D (Assigned)
	Bank Guarantee	Short Term	INR 0.50	SMERA D (Assigned)
	Credit Exposure Limit	Short Term	INR 0.12	SMERA D (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Corporate Loan	Not Applicable	Not Applicable	Not Applicable	4.95	SMERA B+ / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.58	SMERA B+ / Stable (Reaffirmed)
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	19.74	SMERA B+ / Stable (Reaffirmed)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00 **	SMERA B+ / Stable (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	18.33	SMERA B+/Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4 (Reaffirmed)
Forward Cover limits	Not Applicable	Not Applicable	Not Applicable	0.12	SMERA A4 (Reaffirmed)

*Includes Export Packing Credit as a sublimit to the extent of Rs.2.50 crore

#includes Letter of Credit as a sublimit to the extent of Rs.3.00 crore

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ABOUT SMERA

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