

Press Release

Melzer Chemicals Private Limited

June 06, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 20.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 20.50 Cr. bank facilities of Melzer Chemicals Private Limited (MCPL). The outlook is '**Stable**'.

Incorporated in 1994, the company is promoted by Mr. Sunil Shinde and engaged in manufacturing of specialty chemicals. Their products include biocides, preservatives and other specialty chemicals used in a wide variety of Industrial Products and Applications. Their products are used in multiple industries including Water treatment, Paints, Oil and Gas to name a few. They have their customers in both domestic and international markets including countries in the Middle East, Europe, South East Asia, Africa and Americas. They are utilizing 70 per cent of their existing capacity and plan to increase sales with additional utilization and capacity.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MCPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations:**

The company is promoted by Mr. Sunil Balakrishna Shinde and Mr. Chandrasen Ghatge both of whom possess more than 30 years of experience in the current industry. They also have other directorships in industries like Food, Hospitality, Real Estate Development, Infrastructure etc. Acuite believes that the company will continue to benefit from its experienced management and help establish long standing relations with customers and suppliers.

- Improving scale of operations:**

The company has demonstrated healthy revenue scalability which has grown at a CAGR of 15.92 per cent for the last 5 years. The company registered revenues of Rs. 69.16 crore for FY2018 as against Rs. 48.45 crore for FY2017. The revenues have increased backed by healthy orders and increasing geographical reach of the company. Going forward, Acuite believes that the company will maintain its scalability.

Weaknesses

- Moderate financial risk profile:**

The financial risk profile of MCPL is moderate marked by moderate net worth, debt protection metrics and leverage ratios. The tangible net worth of MCPL stood at Rs. 17.80 crore as on 31 March, 2018 as against Rs. 15.65 crore as on 31 March, 2017. Gearing (debt-equity) stood moderate at 1.13 times as on 31 March, 2018 as against 1.05 times in the previous year. The total debt of the company as on 31 March, 2018 stood at Rs. 20.15 crore, comprising of unsecured loans of Rs. 0.83 crore, working capital limits of Rs. 13.87 crore and term loan outstanding of Rs. 5.45 crore. The coverage indicators stood moderate marked by interest coverage ratio (ICR) of the company at 3.56 times in FY2018 as against 2.17 times in the previous year. The debt service coverage ratio (DSCR) stood at

1.95 times in FY2018 as compared to 1.43 times in FY2017. Total outside liabilities to tangible net worth stood moderate at 1.91 times as on 31 March, 2018 as against 1.87 times in the previous year. Acuite believes that the financial risk profile of the company will remain moderate in the absence of any additional debt funded capex and backed by healthy net cash accruals.

• Working capital intensive nature of operations

The company has working capital intensive nature of operations marked by gross current asset (GCA) of 198 days as on 31 March, 2018 as against 209 days in the previous year. The reason for the same is due to decrease in creditor days to 83 days as on 31 March, 2018 as against 120 days in the previous year. Acuite believes improvement in the working capital cycle of the company will be a crucial sensitivity factor.

Liquidity Position

MCPL has a stretched liquidity position marked by moderate net cash accruals against its maturing debt obligations and fully utilized working capital limits. Net cash accruals for the company stood at Rs. 3.49 crore for FY2018 as against Rs. 2.12 crore for FY2017, while the maturing debt obligations were of Rs. 2.04 crore in FY2018. The cash accruals of the company are estimated to remain around Rs. 3.80 – 4.55 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 2.53 – 3.06 crore every year. The cash credit limit of the company remains completely utilized with overdrawings to the extent of ~125 per cent which have been regularized within stipulated timelines. The company maintains unencumbered cash and bank balances of Rs. 0.54 crore as on March 31, 2018. The current ratio of the company stands at 1.39 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain stretched over the near to medium term.

Outlook: Stable

Acuite believes that MCPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues while achieving sustained improvement in operating margins and its capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	69.16	48.45	60.03
EBITDA	Rs. Cr.	6.67	5.08	8.21
PAT	Rs. Cr.	2.15	0.81	(0.89)
EBITDA Margin	(%)	9.65	10.48	13.68
PAT Margin	(%)	3.11	1.67	(1.48)
ROCE	(%)	15.68	13.27	49.10
Total Debt/Tangible Net Worth	Times	1.13	1.05	0.87
PBDIT/Interest	Times	3.56	2.17	3.87
Total Debt/PBDIT	Times	2.95	3.11	1.53
Gross Current Assets (Days)	Days	198	209	186

Status of non-cooperation with previous CRA (if applicable)

India Ratings, vide its press release dated 25th January, 2019 had denoted the rating of Melzer Chemicals Private Limited as 'IND BBB- (ISSUER NOT COOPERATING)' on account of the issuer not participating in the rating exercise despite continuous requests and follow-ups by the agency.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Oct-2018	Cash Credit	Long Term	10.00	ACUITE BB+ Issuer Not Co-operating*
	Term Loan	Long Term	5.50	ACUITE BB+ Issuer Not Co-operating*
	Bank Guarantee	Short Term	5.00	ACUITE A4+ Issuer Not Co-operating*
07-Apr-2017	Cash Credit	Long Term	10.00	ACUITE BB+ Issuer Not Co-operating*
	Term Loan	Long Term	5.50	ACUITE BB+ Issuer Not Co-operating*
	Bank Guarantee	Short Term	5.00	ACUITE A4+ Issuer Not Co-operating*
12-Jan-2016	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Reaffirmed)
	Term Loan	Long Term	5.50	ACUITE BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
06-Jan-2015	Cash Credit	Long Term	10.00	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	5.50	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB+/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

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