



SMERA RATINGS LIMITED

Aroma Chemicals (Aroma)

*Rating
Rationale*

January 07, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	0.46	SMERA B/Stable (Assigned)
Packing Credit	15.00*	SMERA A4 (Assigned)
FOBP/FABC	13.00*	SMERA A4 (Assigned)
Standby Gold Card Limit	5.00	SMERA A4 (Assigned)

**Fund-based ceiling of Rs.25.00 crore*

SMERA has assigned a long-term rating of '**SMERA B**' (read as **SMERA single B**) and a short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.30.46 crore bank facilities of Aroma Chemicals (Aroma). The outlook is '**Stable**'. The ratings are constrained by the firm's moderate-scale operations in a highly fragmented and competitive segment of the chemicals industry. The ratings are also constrained by the firm's weak financial risk profile and working capital-intensive operations. The ratings note that the firm's profit margins are susceptible to volatility in raw material prices and fluctuations in forex rates. The ratings also note that the firm is exposed to the risks of customer concentration and product substitution. However, the ratings are supported by the firm's experienced management.

Aroma, incorporated in 1998, is a Moradabad-based partnership firm engaged in trading, manufacturing and export of natural mentha oil and allied products. Aroma has moderate-scale operations with revenues of Rs.63.50 crore in FY2013-14 (refers to financial year, April 01 to March 31). The firm operates in an intensely competitive segment of the chemicals industry. Aroma's weak financial risk profile is marked by high gearing (debt-to-net worth ratio) of 1.94 times as on March 31, 2014. The firm's interest coverage ratio is low at 1.36 times in FY2013-14. Aroma's profit margins are highly susceptible to volatility in prices of raw material. The firm's operating profit margin declined from 8.47 per cent in FY2011-12 to 4.91 per cent in FY2013-14. Aroma's net profit margin is low at 0.51 per cent in FY2013-14. The firm's profit margins are also susceptible to forex fluctuation risk.

Aroma's operations are working-capital intensive. The firm's working capital cycle is stretched at 140 days in FY2013-14. Aroma maintains high level of inventory (of ~138 days) on account of the seasonal availability of raw material. The firm's utilisation of working capital limit is high at ~99.00 per cent during April 2014 to September 2014.

Aroma is exposed to customer concentration risk arising from high dependence on orders received from a single customer. The firm's product is easily substitutable with synthetic menthol.

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Aroma benefits from its qualified and experienced management. Mr. Udit Mohan, partner of Aroma, has around 12 years of experience in the firm's line of business.

Outlook: Stable

SMERA believes Aroma will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers substantial improvement in its financial risk profile and working capital management. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the projected scalability in revenues and profitability, or in case of deterioration in the firm's financial risk profile

About the firm

Aroma, established in 1998, is a Moradabad-based partnership firm owned by Mr. Suman Kumar, Mr. Udit Mohan (son of Mr. Suman Kumar) and Mrs. Manju Agarwal (wife of Mr. Suman Kumar). The overall operations of the firm are currently managed by Mr. Udit Mohan and Mr. Suman Kumar.

Aroma is engaged in trading and manufacturing of mentha oil and allied products (such as menthol crystals, peppermint oil and mint tarpeen) used in pharmaceutical, confectionery, cosmetics and personal care applications. The firm derives 90 per cent of its total revenues from trading of mentha oil and allied products. Aroma has a manufacturing unit in Moradabad (Uttar Pradesh) with total installed capacity of 1,530 metric tonnes per annum (MTPA). The firm's main export markets include China and Singapore.

For FY2013-14, Aroma reported profit after tax (PAT) of Rs.0.32 crore on operating income of Rs.63.50 crore, as compared with PAT of Rs.0.80 crore on operating income of Rs.72.32 crore in FY2012-13. The firm's net worth stood at Rs.10.64 crore as on March 31, 2014, as compared with Rs.6.93 crore a year earlier.

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