

Press Release

CHEMCON SPECIALITY CHEMICALS PRIVATE LIMITED

15 December, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 22.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 22.00 crore bank facilities of Chemcon Speciality Chemicals Private Limited (CSCPL). The outlook is '**Stable**'.

CSCPL, incorporated in 1988, is a Vadodara-based company engaged in the manufacturing of pharmaceutical intermediates, silicones and oilfield chemicals (completion fluids).

Key Rating Drivers

Strengths

- **Established track record of operations, experienced management**

CSCPL was incorporated in 1988. Over the years, the company has been able to forge healthy relationships with its customers and suppliers. The Directors, Mr. Naresh Kumar Goyal, Mr. Kamal R Aggarwal, Mr. Rajesh Gandhi and Mr. Himanshu Purohit have collective experience of over two decades in the pharmaceutical industry.

- **Moderate scale of operations and comfortable profitability**

CSCPL's scale of operations is moderate with operating income of Rs. 87.69 crore in FY2017 as against Rs. 96.26 crore in FY2016. The decline in revenues is attributable to the company not operating for three months on account of ongoing capex to increase capacity. The company registered revenue of Rs. 68.68 crore for the period April 2017 to October 2017. The operating margins (EBIDTA) improved to 10.20 per cent in FY2017 from 9.67 per cent in FY2016. The profit after tax (PAT) margin stood at 3.43 per cent in FY2017 compared to 2.83 per cent in FY2016. SMERA expects moderate growth in revenue and profitability over the medium term on the back of completed capital expenditure and addition of new clients.

- **Healthy financial risk profile**

The tangible net worth increased to Rs.27.37 crore as on 31 March, 2017 as against Rs. 24.37 crore as on 31 March, 2016. The gearing (debt-to-equity ratio) stood at 0.74x times as on 31 March, 2017 as against 0.53x times as on 31 March, 2016. The total debt of Rs.20.19 crore includes long term loans of Rs. 3.07 crore and short term working capital borrowings of Rs.17.12 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 4.64x times for FY2017 as against 3.45x times for FY2016. The net cash accruals to total debt (NCA to TD) stood at 0.26x times in FY2017 as against 0.39x times in FY2016.

- **Reputed clientele and healthy order book**

CSCPL has been catering to reputed clients including Aurobindo Pharma Ltd, Lupin Ltd and Sun Pharma for the last 21 years and getting repeat business. The company has a strong order book position marked by current orders in hand of Rs. 27.40 crore, to be executed by 30 December, 2017.

Weaknesses

- **Working capital intensive operations**

CSCPL's operations are working capital intensive marked by gross current assets (GCA) of 141 days in FY2017 as against 92 days in FY2016. This is on account of high debtors of 99 days in FY2017 as against 52 days in FY2016 and high inventory holding of 42 days in FY2017 as against 33 days in FY2016. The average cash credit utilisation stood at 80 per cent for the six months ended 31 October, 2017.

- **Exposure to foreign exchange fluctuation risk**

CSCPL imports about 30 per cent of its raw materials (in FY2017) from countries including Germany, China and Netherlands and exports 66 per cent of its sales (in FY2017) to Japan, USA, China, Taiwan, Spain, UAE, Nigeria and Kuwait. The company is thus exposed to forex fluctuation risk which is offset through natural hedging.

- **Highly regulated and competitive nature of the pharmaceutical sector**

The company is exposed to intense competition from large players in the industry as also unfavourable regulations that could have a bearing on the profit margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of CSCPL.

Outlook: Stable

SMERA believes that CSCPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in scale of operations while achieving sustained improvement in profit margins and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2017, CSCPL reported net PAT of Rs. 3.00 crore on operating income of Rs. 87.69 crore as against PAT of Rs.3.25 crore on operating income of Rs. 96.79 crore in the previous year. The net worth stood at Rs. 27.37 crore as on 31 March, 2017 as against Rs. 24.37 crore in the previous year

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
20-Aug, 2016	Cash Credit	Long Term	INR 15.00	SMERA BBB- / Stable (Reaffirmed)
	Letter of Credit	Short Term	INR 7.00	SMERA A3 (Reaffirmed)
12-May, 2015	Cash Credit	Long Term	INR 12.00	SMERA BBB- / Stable (Assigned)
	Letter of Credit	Short Term	INR 5.00	SMERA A3 (Assigned)
	Letter of Guarantee	Short Term	INR 1.00	SMERA A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA BBB- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA A3 (Reaffirmed)

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ABOUT SMERA

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