

Press Release

Vaghani Inc

January 07, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 44.00 Cr.
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the short term rating to '**ACUITE A4' (read as ACUITE A four)** from '**ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 44.00 crore bank facilities of Vaghani Inc (Vaghani).

The downgrade is in view of the stretched liquidity faced by the Group on account of elongated receivable cycle of 85 days as on March 31, 2018 against 43 days as on March 31, 2017.

The Mumbai-based, Vaghani was established by Mr. Vaghani and family in 2001. The trust is engaged in the trading of wax (polyethylene microcrystalline carnauba) and other chemicals (hydrocarbon resins, thermoplast resins and gum damar).

Analytical Approach

Acuité has considered the consolidated financial and business risk profile of Rays Import INC and Vaghani INC, together referred to as the Vaghani Group to arrive at the rating. The consolidation is on account of operational linkages, financial fungibility and common management. Extent of Consolidation : Full.

Key Rating Drivers

Strengths

• Experienced management

Mr. Praful Vaghani, Trustee of the Vaghani group, has around four decades of experience in the industry through a sister concern- Excel Prime Commodities Private Limited (currently non-operational). He manages the day-to-day operations of the business and is assisted by Mr. Anand Vaghani. The group has registered revenue of Rs.193.45 crore for FY2018 as compare to Rs.101.80 crore for FY2017.

• Established and reputed customer base

The Vaghani group has been in the business of trading of wax for over six decades. The group has established relations with reputed customers such as Hindustan Unilever Limited and Reckitt Benckiser Limited.

• Comfortable financial risk profile

Vaghani Group has a moderate financial risk profile marked by high net worth, high gearing and moderate debt protection metrics. The net worth of the company stood at Rs.11.83 crore as on March 31, 2018 against Rs.8.59 crore as on March 31, 2017. The total debt of Rs.35.82 crore comprises Rs.3.28 crore unsecured loans from the Directors and relatives and Rs.32.54 crore of short term finance from the bank. The gearing of the company stood at 3.03 times as on March 31, 2018 against 2.06 times as on March 31, 2017. The interest coverage ratio stood at 2.91 times for FY2018 against 2.64 times for FY2017. TOL/TNW stood at 6.86 times as on March 31, 2018 against 2.28 times as on March 31, 2017. Net Cash Accruals of the company stood at Rs.3.14 crore for FY2018.

Weaknesses

• Fluctuations in forex rates

The firm's imports constitute 90 percent, while 10 percent is procured domestically. The group is exposed to fluctuations in forex rates. Although, the same is mitigated by the company's hedging of

the currency risk by way of forward cover contracts.

• Uneven operating margins

Vaghani's operating margins have shown uneven trends in the past at 2.36 percent in FY2018 as compared to 2.41 percent in FY2017 and 1.91 percent in FY2016. The variability in margins is on account of fluctuations in raw material prices mainly industrial wax which the company imports from Brazil, Spain and Holland, among others.

• Intensive working capital nature of operations

The working capital of the Group has significantly deteriorated as on March 31, 2018 marked by high GCA of 165 days as on March 31, 2018 compared to 87 days in the previous year. This is on account of increase in debtors and inventory of 85 days and 64 days respectively as on March 31, 2018 against 29 days and 43 days respectively as on March 31, 2017. Subsequently, the creditors are also stretched at 151 days as on March 31, 2018 against 60 days as on March 31, 2017.

About the Group

Vaghani group is into trading industry since 1954 through another sister concern, Exel Prime Commodities Private Limited (non-operational as on date). Vaghani INC and Rays Import INC together known as Vaghani group, the group imports varieties of waxes and chemicals majorly from Brazil, Singapore and Russia and supplies it to domestic companies. These chemicals are used in various industries such as pharmaceuticals, cosmetic, engineering and plastic.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	193.45	101.80	93.96
EBITDA	Rs. Cr.	4.56	2.45	1.84
PAT	Rs. Cr.	3.07	1.67	1.03
EBITDA Margin	(%)	2.36	2.41	1.96
PAT Margin	(%)	1.59	1.64	1.10
ROCE	(%)	12.87	12.40	12.58
Total Debt/Tangible Net Worth	Times	3.03	2.06	2.18
PBDIT/Interest	Times	2.91	2.64	2.06
Total Debt/PBDIT	Times	7.41	6.35	5.85
Gross Current Assets (Days)	Days	165	87	82

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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-Jul-2018	Letter of Credit	Short Term	44.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	18.00	ACUITE A4+ (Assigned)

19-Jul-2017	Letter of Credit	Long Term	18.00	ACUITE BB- / Stable (Withdrawn)
-------------	------------------	-----------	-------	---------------------------------

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A4 (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Jyotsna Nebhnani Analyst - Rating Operations Tel: 022 49294074 jyotsna.nebhnani@acuite ratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.