

Press Release

Raj Chem Plast (RCP)

27 November, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	SMERA BB/Stable
Short Term Rating	SMERA A4+

*Refer annexure for details

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as SMERA double B) and short term rating of '**SMERA A4+**' (read as SMERA A4 plus) on the above bank facilities of Raj Chem Plast (RCP). The outlook is '**Stable**'.

Raj Chem Plast (RCP), a proprietorship firm established in 1990 by Mr. Raj Kumar Agarwal is the authorised Del Credere Agent (DCA) for GAIL and BCPL in Tamil Nadu.

Key rating drivers

Strengths

Long track record of operations and experienced management: RCP has track record of over two decades as a Del Credere Agent (DCA). Mr. Agarwal, the proprietor has more than two decades of experience in the petroleum, plastic and chemicals business. RCP has strong relations with GAIL and BCPL in Tamil Nadu.

SMERA believes that the firm would benefit from the extensive experience of the management.

Authorised Del Credere Agent (DCA) for GAIL and associates: The firm is an authorised Del Credere Agent (DCA) for GAIL since over two decades. In FY2017, RCP was appointed DCA for Brahmaputra Cracker and Polymer Limited (BCPL), a group company of GAIL.

Moderate business risk profile: RCP registered increase of 163.09 per cent from Rs. 50.85 crore in FY2016 to Rs. 133.78 crore in FY2017 (Provisional) owing to increase in capacity. The firm registered revenue of Rs.82 crore from April 2017 to Sep 2017. Going ahead, SMERA expects the firm to register revenue of Rs. 175 crore for FY2018 owing to capacity expansion by GAIL and BCPL (as DCA).

Weaknesses

Average financial risk profile: RCP has an average financial risk profile marked by decline in tangible networth of Rs.8.07 crore as on 31 March 2017 (Provisional) as against Rs.8.21 crore as on 31 March, 2016 on account of withdrawal of capital. The gearing stood at 2.25 times as on 31 March, 2017 (Provisional) as against 2.04 times as on 31 March, 2016. The total debt of Rs.18.07 crore as on 31 March, 2017 consists of working capital loan.

SMERA Ratings Limited

RCP has modest interest coverage ratio of 1.22 times in FY2016-17 (Provisional) as against 1.21 times in FY2015-16. Going forward, the gearing is expected to remain comfortable in the medium term in the absence of future external borrowing.

Uneven profit margins: The EBITDA margins have been uneven and declined to 2.81 percent in FY2017 (Provisional) from 7.62 percent in FY2016 and 3.53 percent in FY2015. This was mainly on account of fluctuations in raw material prices and the volume led business. Further, the profit margins stood at 0.46 per cent in FY2017 (Provisional) as against 0.95 percent in FY2016 and 0.23 per cent in FY2015.

High counterparty credit risk leading to high working capital requirements: The firm being a DCA cum Consignment Stock of GAIL is exposed to high counterparty credit risk as the risk (receivables) is transferred from GAIL to RCP resulting in high working capital requirements. This ultimately influences the net profit margin.

Risk of capital withdrawal: Being a proprietorship concern, RCP is exposed to the risk of capital withdrawal and the same has been observed in the past during the period under study.

Analytical approach: SMERA has considered the standalone business and financial risk profile of RCP.

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Outlook – Stable

SMERA believes that the outlook of RCP will remain stable over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the firm is able to scale up operations while maintaining healthy customer profile and effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the scale of operations resulting in fall in cash accruals or deterioration of the capital structure or cost of fund.

About the Rated Entity – Key Financials

For FY2015-16, RCP reported net profit of Rs.0.48 crore on total operating income of Rs.50.85 crore compared with net profit of Rs.0.16 crore on total operating income of Rs.70.63 crore in FY2014-15. The tangible net worth stood at Rs.8.07 crore as on 31 March, 2016 as against Rs.8.21 crore in the previous year. As per provisional financials for FY2016-17, RCP reported PAT of Rs. 0.62 crore on total operating income of Rs.133.78 crore.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
19- Sep, 2016	Secured Overdraft	Long Term	20.00	SMERA BB / Stable (Reaffirmed)
	Bill Negotiation	Long Term	5.00	SMERA BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	SMERA A4+ (Reaffirmed)
16-Jul, 2015	Overdraft	Long Term	20.00	SMERA BB / Stable (Assigned)
	Bill Negotiation	Long Term	5.00	SMERA BB / Stable (Assigned)
	Bank Guarantee	Short Term	10.00	SMERA A4+ (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
Secured Overdraft	NA	NA	NA	20.00	SMERA BB / Stable (Reaffirmed)
Bill Negotiation	NA	NA	NA	5.00	SMERA BB / Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	10.00	SMERA A4+ (Reaffirmed)

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Pawan Punmaji Rating Analyst, Tel: +91-22-6714 1111 Email: pawan.punmaji@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smerra.in.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smerra.in) for the latest information on any instrument rated by SMERA.