

Press Release

ZH Chemicals Private Limited

February 07, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 7.16 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) from **ACUITE B+** (**read as ACUITE B plus**) to the Rs. 7.16 crore bank facilities of ZH Chemicals Private Limited (ZHPL). The outlook is '**Stable**'.

The rating upgrade mainly reflects expected improvement in scale of operations and profitability in FY2018. The revenues have increased to Rs.62.52 crore in FY2018 from Rs.54.97 crore in FY2017. Further, the operating margins have increased to 7.66 percent in FY2018 from 3.01 percent in FY2017. Acuité believes that the group will sustain the revenue growth while maintaining its financial risk profile and liquidity position over the medium term.

The Mumbai-based, ZH Chemicals Private Limited (a subsidiary of Samrat Remedies Limited), is engaged in the manufacture of iodine - raw material used to manufacture iodine derivatives by SRL. The company is headed by Mr. Champak Parekh.

Analytical Approach

Acuité has taken a consolidated view of SRL and ZH Chemicals Private Limited (ZHC), hereinafter referred to as 'group', due to common management and significant business and financial linkages between the entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

The group is managed by Mr. Champak Parekh (Director) who possess more than two decades of experience in the pharmaceutical industry. The group has long standing relationship with its clients and avails recurring demand from them.

- **Improvement in revenues and operating margins**

Revenues of the group have increased to Rs.65.52 crore in FY2018 from Rs.54.97 crore in FY2017. The operating margin of the group increased to 7.66 percent in FY2018 from 3.01 percent in FY2017 on account of decrease in the other manufacturing expenses incurred by the group. The group reported net profit of Rs.0.42 crore in FY2018 as against net loss of Rs.1.39 crore in FY2017.

Weaknesses

- **Weak financial risk profile**

The ratings are constrained by moderate net worth of the group at Rs.7.07 crore, while gearing stood stretched at 3.92 times as on 31 March, 2018. The total debt of Rs.21.39 crore includes term loan of Rs.3.46 crore, unsecured loans from Directors of Rs.8.48 crore and working capital borrowing of Rs.9.45 crore. The Total outside Liabilities to Total Net Worth (TOL/TNW) stood at 6.33 times as on 31 March, 2018. Further, Interest Coverage Ratio (ICR) stood at 1.53 times and Debt Service Coverage Ratio (DSCR) stood at 1.23 times as on 31 March, 2018. Acuité believes that the improvement in the financial profile of the group would be a key sensitivity factor in the medium term.

- **Intensive working capital operations**

The group has intensive working capital operations marked by high Gross Current Assets (GCA) of 215 days in FY2018 as against 191 days in FY2017. The inventory and debtor levels stood at 95 and 84 days in FY2018 as against 82 and 70 days in FY2017, respectively. This has led to higher reliance on working capital borrowings, the cash credit limit has been utilised at around 85 to 90 percent during the last six months period ended December 2018.

Liquidity position

Samrat group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.0.77 to 2.04 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.92 to 1.47 crore over the same period. The cash accruals of the group are estimated to remain around Rs.2.59 to 4.54 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 2.50 to 1.31 Crore. The group's operations are working capital intensive as marked by gross current asset (GCA) days of 180 in FY 2018. This has led to high reliance on working capital borrowings, the cash credit limit in the group remains utilized at 85 to 90 percent during the last 6 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.23 crore as on March 31, 2018. The current ratio of the group stands at 1.22 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher than expected improvement in profit margins and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the group's profit margins and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	65.52	54.97	63.13
EBITDA	Rs. Cr.	5.02	1.65	2.09
PAT	Rs. Cr.	0.42	-1.39	0.15
EBITDA Margin	(%)	7.66	3.01	3.31
PAT Margin	(%)	0.64	-2.53	0.24
ROCE	(%)	15.68	6.70	16.17
Total Debt/Tangible Net Worth	Times	3.03	2.81	1.88
PBDIT/Interest	Times	1.53	1.07	1.54
Total Debt/PBDIT	Times	3.65	5.80	6.11
Gross Current Assets (Days)	Days	180	158	136

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
12-Jan-2018	Cash Credit	Long Term	2.40	ACUITE B+ / Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	3.60	ACUITE B+ / Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	1.16	ACUITE B+ / Stable (Upgraded from ACUITE D)
17-Oct-2016	Cash Credit	Long Term	2.40	ACUITE D (Assigned)
	Term Loan	Long Term	3.60	ACUITE D (Assigned)
	Term Loan	Long Term	1.16	ACUITE D (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	2.40	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BB- / Stable (Upgraded from ACUITE B+/Stable)

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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.

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