

Press Release

ZH Chemicals Private Limited

April 23, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 7.16 crore
Long Term Rating	ACUITE BB- / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the above mentioned bank facilities of ZH Chemicals Private Limited (ZHCPL). The outlook is '**Stable**'.

ZHCPL is a subsidiary of Samrat Remedies Limited (SRL) and was renamed from Kalbro Textile Industries Private Limited after the takeover of the company by SRL in 2013. The company is engaged in manufacturing iodine. The same is used as raw material by SRL for manufacturing iodine derivatives. The company has an installed capacity of 120 MT per annum. The products manufactured by SRL are used as by pharmaceutical companies as intermediates in the manufacture of Active Product Ingredients (API).

The company is a part of the business group, hereinafter referred to as Samrat group (SG) comprising of Samrat Remedies Limited and ZH Chemicals Private Limited.

Analytical Approach

Acuité has consolidated business and financial risk profiles of Samrat Remedies Limited and ZH Chemicals Private Limited together referred to as the 'Samrat Group'. The consolidation is in view of the common management and significant operational and financial linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele

SG is promoted by Mr. Champak Parekh (Director) and Mr. Hitesh C. Parekh (Director) along with others. The promoters of the group have been engaged in the chemical industry for more than two decades. The extensive experience of the promoters has helped in maintaining relationships with its customers and suppliers which has led to healthy growth revenue profile. The operating income of the group stands at Rs.89.04 crore in FY2019 as against Rs.65.52 crore in FY2018 registering a growth of around 36 percent Y-O-Y. Further, the group has registered an operating income of around Rs.80.00 crore (Provisional) for FY2020 (12M). Acuité believes that the group will benefit from the experience of the management and established track record in the aforementioned industry.

Weaknesses

• Working Capital intensive nature of operations

SG's operations remained working capital intensive in nature as reflected by its gross current asset (GCA) days of around 139 days as on March 31, 2019 as against 180 days in the previous year. There is a significant improvement in the GCA days however the cycle still remains to be intensive on account of the inventory days standing at 75 days in FY2019 as against 95 days in FY2018. The debtor collection period of the group is around 35 days for FY2019 as against 49 days in the previous year. In addition to the above the creditor payback period of SG stands high at 94 days in FY2019. Acuité expects the operations of the group to remain working capital intensive on account of high inventory level maintained by the group.

• Profit margins susceptible to volatility in raw material prices

The operating margins of the group are highly depended on raw material prices and have declined in FY2019 to 5.61 percent from 7.66 percent in the previous year. Since, raw material price depends upon various factors such as global prices as the group imports around 80 percent of their raw materials from overseas and other dominant factor being the bargaining power of the group with suppliers thus the profitability is directly impacted by the change in any of these dynamics. Further the group operates in an industry with limited entry barriers causing intense competition.

Rating Sensitivity

- Significant improvement in the scale of operation with improvement in profitability, sustenance of the comfortable financial risk profile and improvement in working capital intensity.
- Deterioration in working capital or any major debt funded capex

Material Covenants

None

Liquidity position

SG has adequate liquidity marked by average net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. 1.55 crore in FY2019 as against maturing debt obligations of Rs. 0.90 crores during the same period. The cash accruals of the group are estimated to remain around Rs.1.53 crore to Rs.1.40 crore during 2020-22 against repayment obligations ranging from Rs. 0.68 crores to Rs. 0.46 crores during the same period. The group's working capital operations is intense marked by the gross current asset (GCA) days of 139 days for FY2019. The company maintains unencumbered cash and bank balances of Rs.0.16 crore as on 31 March 2019. The current ratio stands at 0.96 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to no debt repayments over the medium term.

Outlook: Stable

Acuite believes that SG will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	89.04	65.52
PAT	Rs. Cr.	0.11	0.42
PAT Margin	(%)	0.12	0.64
Total Debt/Tangible Net Worth	Times	3.25	3.56
PBDIT/Interest	Times	1.43	1.53

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

Not Applicable

Any other information

Not Applicable

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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Feb-2019	Cash Credit	Long Term	2.40	ACUITE BB-/ Stable (Upgraded from ACUITE B+/ Stable)
	Term Loans	Long Term	3.60	ACUITE BB-/ Stable (Upgraded from ACUITE B+/ Stable)
	Term Loans	Long Term	1.16	ACUITE BB-/ Stable (Upgraded from ACUITE B+/ Stable)
12-Jan-2018	Cash Credit	Long Term	2.40	ACUITE B+ / Stable (Upgraded from ACUITE D)
	Term Loans	Long Term	3.60	ACUITE B+ / Stable (Upgraded from ACUITE D)
	Term Loans	Long Term	1.16	ACUITE B+ / Stable (Upgraded from ACUITE D)
17-Oct-2016	Cash Credit	Long Term	2.40	ACUITE D (Assigned)
	Term Loans	Long Term	3.60	ACUITE D (Assigned)
	Term Loans	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 (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.60	ACUITE BB-/ Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.16	ACUITE BB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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