

Press Release

ZH Chemicals Private Limited

October 19, 2020



Rating Withdrawn

Total Bank Facilities Rated*	Rs. 7.16 Cr.
Long Term Rating	ACUITE BB- (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has withdrawn the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs. 7.16 crores bank facilities of ZH Chemicals Private Limited (ZHCPL). The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating is being withdrawn on account of request received from the company and NOC received from the banker.

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 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 taken the 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.

Key Rating Drivers

Strengths

- **Experienced management and improvement in scale of operations**

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.97.70 crore (Provisional) for FY2020. 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 127 days as on March 31, 2020 (Provisional) as against 139 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 54 days in FY2020 (Provisional) as against 75 days in FY2019. The debtor collection period of the group is around 37 days for FY2020 (Provisional) as against 35 days in the previous year. In addition to the above, the creditor payback period of SG stands high at 59 days in FY2020 (Provisional). 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 FY2020 (Provisional) to 4.18 percent from 5.61 percent in FY2019 and 7.66 percent in FY2018. 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.

Liquidity position: Adequate

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. Acuité 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.

Rating Sensitivities

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	97.70	89.04
PAT	Rs. Cr.	0.25	0.11
PAT Margin	(%)	0.25	0.12
Total Debt/Tangible Net Worth	Times	3.42	3.25
PBDIT/Interest	Times	1.38	1.43

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

None

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Apr-2020	Cash Credit	Long Term	2.40	ACUITE BB-/ Stable (Reaffirmed)
	Term Loans	Long Term	3.60	ACUITE BB-/ Stable (Reaffirmed)
	Term Loans	Long Term	1.16	ACUITE BB-/ Stable (Reaffirmed)
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)

***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- (Withdrawn)
Term Loans	Not Available	Not Available	Not Available	3.60	ACUITE BB- (Withdrawn)
Term Loans	Not Available	Not Available	Not Available	1.16	ACUITE BB- (Withdrawn)

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About Acuité Ratings & Research:

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