

Associated Chemical Corporation: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	6.00	SMERA BB/Stable (Assigned)
Letter of Credit	25.00	SMERA A4+ (Assigned)
Bank Guarantee	1.50	SMERA A4+ (Assigned)

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of Associated Chemical Corporation (ACC). The outlook is '**Stable**'.

The ratings derive comfort from the established track record of operations and experienced management. The ratings also draw support from the moderate scale of operations and healthy operating margins. However, the ratings are constrained by the working capital intensive operations, average financial risk profile and the highly competitive and fragmented textile and chemical industry.

ACC, a proprietorship concern, commenced operations in 2005 to trade in yarn, chemicals, finished fabrics and lubricant oil. The firm has moderate scale of operations marked by operating income of Rs.138.03 crore in FY2015-16 as compared to Rs.105.89 crore in FY2014-15. The firm has healthy operating margins at 3.23 percent and PAT margins at 2.61 percent in FY2015-16.

ACC has working capital intensive business marked by high gross current asset (GCA) of 160 days due to high receivables of 132 days in FY2015-16. The creditor days also stood high at 110 days in FY2015-16 as against 106 days in FY2014-15. The average cash credit utilisation has been around 60 percent. ACC has average financial risk profile marked by average networth of Rs.9.40 crore as on 31st March 2016. The gearing stood at 2.01 times as on 31st March 2016 while the interest coverage ratio was at 2.75 times for FY2015-16. Besides, the chemical industry is highly fragmented with large number of organised and unorganised players.

However, the firm benefits from its experienced management. The proprietor, Mr. Ketan S Mehta, possesses over 30 years of experience in the trading of yarn, chemicals and fabrics.

Rating Sensitivity Factors

- Sustaining improvement in revenues and margins
- Movement in gearing and coverage indicators
- Efficient working capital management

Outlook-Stable

SMERA believes that ACC will maintain a stable outlook over the medium term owing to its established presence in the trading industry. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues while improving profit margins. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profits or if the firm registers deterioration in its financial risk profile.

Criteria applied to arrive at the ratings:

- Trading Entity

About the Firm

ACC, a Mumbai-based proprietary concern was established in 2005 by Mr. Ketan S Mehta. The firm is engaged in the trading of yarn dyed fabric, terry towel, home furnishing fabric among others. It caters to several industries including textiles, petroleum and paper. The firm is an authorised distributor for Hyosung Vietnam Company Limited, Jay Chemical Industries Limited, Meghmani Dyes and Intermediates Limited to name a few.

For FY2015-16, the firm reported profit after tax (PAT) of Rs.3.60 crore on operating income of Rs.138.03 crore as against PAT of Rs.3.00 crore on operating income of Rs.105.89 in the previous year.

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ABOUT SMERA

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