

Press Release

ASSOCIATED CHEMICAL CORPORATION

March 28, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 32.50 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 32.50 crore bank facilities of ASSOCIATED CHEMICAL CORPORATION. The outlook is '**Stable**'.

Associated Chemical Corporation (ACC) was established as a partnership concern in 2005 by Mr. Ketan S. Mehta. The firm is engaged as a distributor of Yarn Dyed Fabric, Terry Towel, Home Furnishing Fabric, Digital Printed Fabric, Spandex Yarn, Bed Linen etc. The firm is catering to different industries counting from textile petroleum, to pharmaceuticals industries. The firm is an authorised distributor for Hyosung Vietnam Company Limited, Jay Chemical Industries Limited, Meghmani Dyes and Intermediates Limited, Titanium Products Limited to name a few.

Key Rating Drivers

Strengths

• Experience Management

Associated Chemical Corporation was established in 1979 as a partnership firm which was later converted into a proprietorship concern. The promoter of the company, Mr. Ketan S. Mehta has more than three decades of experience in the textile business.

• Improvement in Profitability Margins

The operating margins of ACC registered consistent improvement in the last three years. The firm registered 4.48 per cent in FY2017 from 2.93 per cent in FY2015 on account of reduction in raw material prices. The net margins also improved in line with operating margins.

Weaknesses

• Average financial risk profile

ACC has average financial risk profile marked by tangible net worth of Rs. 7.41 crore as on 31 March, 2017 as against Rs. 4.40 crore as on 31 March, 2016. The gearing stood at 3.56 times as on 31 March, 2017 as against 5.44 times as on 31 March, 2016. The debt of Rs. 26.33 crore consists of unsecured loans from promoters/ directors of Rs. 25.01 crore and working capital borrowings of Rs. 1.31 crore as on 31 March, 2017. The Interest Coverage Ratio (ICR) stood at 2.50 times for FY2017 as against 2.75 times in FY2016. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 9.06 times as on 31 March, 2017 as against 14.25 times as on 31 March, 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times in FY2017.

• Working capital intensive operation

The operations are working capital intensive marked by high Gross Current Asset (GCA) of 182 days in FY2017 as against 160 days in FY2016. The GCA days are mainly dominated by high receivable days of 140 in FY2017 against 132 in FY2016. Average cash credit utilisation for last six months is 75%. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a

stable credit profile.

• **Highly competitive and fragmented industry**

The trading industry is a highly fragmented industry and there is large number of organized and unorganized players which has led to high competition in the industry. The firm faces competition from few large players as well as numerous players in the unorganized segment.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Associated Chemical Corporation for arriving at the rating.

Outlook: Stable

SMERA believes ACC will maintain a 'Stable' business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the company registers higher than expected revenue and liquidity position while maintaining profitability margins. Conversely the outlook will be revised to 'Negative' in case of significant decline in firm's revenue and profitability.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	136.15	138.03	105.89
EBITDA	Rs. Cr.	6.10	4.46	3.10
PAT	Rs. Cr.	3.90	3.60	3.00
EBITDA Margin	(%)	4.48	3.23	2.93
PAT Margin	(%)	2.87	2.61	2.83
ROCE	(%)	21.12	20.64	31.89
Total Debt/Tangible Net Worth	Times	3.56	5.44	1.47
PBDIT/Interest	Times	2.50	2.75	3.37
Total Debt/PBDIT	Times	3.98	4.14	3.66
Gross Current Assets (Days)	Days	182	160	190

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

Not Applicable

Any other information

SMERA 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.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>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Dec-2016	Cash Credit	Long Term	INR 6	SMERA BB / Stable
	Letter of Credit	Short	INR 25	SMERA A4+

		Term		
	Bank Guarantee	Short Term	INR 1.5	SMERA A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A4+
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4+

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Manmitha Sodhi Analyst - Rating Operations Tel: 022-67141133 Manmitha.Sodhi@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.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.smera.in) for the latest information on any instrument rated by SMERA.