

Press Release

ASSOCIATED CHEMICAL CORPORATION

June 07, 2019



Rating Reaffirmed

Total Instruments Rated*	Rs. 32.50 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the above mentioned bank facilities of ASSOCIATED CHEMICAL CORPORATION (ACC). The outlook is '**Stable**'.

Mumbai based, Associated Chemical Corporation (ACC) was established as a proprietorship concern in the year 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. Firm is catering to different industries counting from textile petroleum, paper, chemicals and pharmaceuticals industries.

Analytical Approach

ACUITE has considered the standalone business and financial risk profiles of the ACC to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience Management**

Associated Chemical Corporation was established in 1979 as a partnership firm which was later converted into as a proprietorship concern. The promoter of the company Mr. Ketan S. Mehta has more than three decades of experience in the textile business. Extensive experience of the promoter has helped the firm to establish healthy relations with its customers and suppliers.

- **Average financial risk profile**

The financial risk profile of ACC is marked by tangible net worth of Rs. 7.86 crore as on 31 March, 2018 as against Rs. 7.41 crore as on 31 March, 2017. The gearing stood at 3.69 times as on 31 March, 2018 as against 3.56 times as on 31 March, 2017, however the total debt of Rs. 29.01 crore represents unsecured loans from promoters/ relatives. The Interest Coverage Ratio (ICR) stood at 2.38 times for FY2018 as against 2.50 times in FY2017. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 9.03 times as on 31 March, 2018 as against 9.06 times as on 31 March, 2017. The Net Cash Accruals stood at Rs. 4.08 crore and the firm does not have any long term repayment obligation. Acuité believes the firm will maintain average financial risk profile on account of stable accruals and absence of any debt funded capex.

Weaknesses

- **Working capital intensive operation**

Operations of the firm are working capital intensive as marked by high Gross Current Asset (GCA) of 162 days in FY2018 as against 182 days in FY2017. The GCA days are mainly dominated by high receivable days of 118 in FY2018 against 140 in FY2017. Average cash credit limit utilisation for last six months is 75%. Acuite believes that the efficient working capital management will be crucial to the firm 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. Also on account of its trading nature of business, the entry barriers are low, leading to stiff competition for ACC.

Liquidity Position:

Liquidity profile is moderate marked by cumulative net cash accruals of Rs.11.72 crore during FY2016-18 and absence of any long term debt obligation. The firm's operations are highly working capital intensive as marked by gross current asset (GCA) days of 162 in FY 2018 and the cash credit limit of the firm remains utilised around 75 percent. The current ratio of the firm stood at 1.85 times as on March 31, 2018. Acuité believes that the liquidity of the firm is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes the firm will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and long execution track record. The outlook may be revised to 'Positive' in case the firm registers growth in scale of operations while registering sustained improvement in profit margins and financial risk profile. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability, or in case of deterioration of financial risk profile or further deterioration in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	154.97	136.15	138.03
EBITDA	Rs. Cr.	6.46	6.10	4.46
PAT	Rs. Cr.	3.94	3.90	3.60
EBITDA Margin	(%)	4.17	4.48	3.23
PAT Margin	(%)	2.54	2.87	2.61
ROCE	(%)	19.54	21.12	40.28
Total Debt/Tangible Net Worth	Times	3.69	3.56	5.44
PBDIT/Interest	Times	2.38	2.50	2.75
Total Debt/PBDIT	Times	4.12	3.98	4.14
Gross Current Assets (Days)	Days	162	182	160

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>
- Criteria for Securitized Transactions- <https://www.acuite.in/view-rating-criteria-29.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
28-March-2018	Cash Credit	Long Term	6.00	ACUITE BB / Stable (Reaffirmed)
	Letter of credit	Short Term	25.00	ACUITE A4+ (Reaffirmed)

	Bank Guarantee	Short Term	1.50	ACUITE A4+ (Reaffirmed)
27-Dec-2016	Cash Credit	Long Term	6.00	ACUITE BB / Stable (Assigned)
	Letter of credit	Short Term	25.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A4+ (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	6.00	ACUITE BB / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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