

Press Release

Ambani Organics Limited

D-U-N-S® Number: 91-583-5250

July 25, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.34.76 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 34.76 Cr. crore bank facilities of Ambani Organics Limited (AOL). The outlook is '**Stable**'.

AOL was incorporated as a private limited company by Mr. Rakesh Shah in 1985. AOL was converted to Public Limited in FY2017 and listed on NSE in June 2018. AOL is engaged in the manufacturing of specialty chemicals used in industries such as paint, paper, automobile and agriculture among others. AOL has two manufacturing units located at Tarapur (Maharashtra) with combined manufacturing capacity of 18500 MT per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AOL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The Promoter and Managing Director, Mr. Rakesh Shah holds more than three decades of experience in the chemicals industry. He is equally supported by other Directors viz. Mrs. Apooni Shah, Mr. Sharad Kothari, Mr. Dilipkumar Mehta, Mr. Prakash Mahanwar, and Mr. Sanjay Mehta who hold experience of more than two decades in the chemicals industry.

Acuité believes that AOL will continue to benefit from its management's extensive experience in the near to medium term.

- **Wide range of offerings with multiple applications**

AOL offers a range of over 100 specialty chemicals including binders, PVP and acrylic emulsions, textile auxiliaries, detergent formulation, acrylic polymers, adhesives, styrene acrylic, defoamer, dispensers, butyl acrylate based terpolymer, thickeners, and paint driers to name a few, under the 'AOPL' brand. These products find application in various industries including Paper industry, Textile industry, Adhesive industry, Paint and Construction industry and Carpet industry. AOPL's wide range of product offering has helped the company diversify and increase their customer base over the years.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by net worth of Rs. 15.61 crore as on 31 March, 2019 as against Rs. 5.97 crore as on 31 March, 2018. The net worth has increased on account of additional capital brought in by the company through equity infusion through IPO. The gearing improved to 0.95 times as on 31 March, 2019 as against 2.69 times as on 31 March, 2018. The total debt of Rs.14.76 crore outstanding as on 31 March, 2019 comprises of Rs.0.74 crore as unsecured loans from Directors, Rs. 12.28 crore as a working capital facility from the bank and Rs.1.74 crore as long-term loan from the bank. ICR improved to 2.25 times in FY2019 as against 2.36 times in FY2018. DSCR stood at 1.35 times in FY2019 as against 1.60 times in FY2018. Further, the net cash accruals of AOL increased to Rs.2.44 crore in FY2019 as against Rs.2.36 crore in FY2018. NCA/TD ratio stood at 0.17 times in FY2019 as against 0.15 times in FY2018. Acuité believes that AOL will sustain its financial risk profile on the back of growing net cash accruals and moderate leverage policy.

Weaknesses

• Working capital intensive operations

Operations of AOPL are working capital intensive marked by high Gross Current Assets (GCA) of 203 days in FY2019 as against 184 days in FY2018. This is mainly on account of strategic decision of the company to stock up on raw material as the prices were favorable at the time. The inventory days stood at 84 days in FY2019 as against 63 days in FY2018. The receivables period stood stable at 88 days in FY2019 as well as FY2018. The same is supported by credit from suppliers of about 131 days in FY2019. Further, AOL has higher reliance on working capital borrowings as reflected through the cash credit limit utilisation that stood at 95 percent during the last three months ended June 2019.

• Moderate scale of operations

The scale of operations of AOPL is moderate marked by turnover of Rs. 79.80 crore in FY2019 as against Rs. 65.30 crore in FY2018. Further, average utilisation of the installed manufacturing capacity remained at 60% for FY2019. Acuite believes that the ability of the company to scale up its operations while maintaining profitability will be a key rating sensitivity.

• Susceptible to fluctuation in raw material prices and forex rates

Raw material costs of AOPL form ~85 percent of the total turnover. Thus, any fluctuation in the prices of raw materials will affect the profitability of the company. AOL procures raw materials domestically as well as imports from Singapore, Japan and China. ~33% of total raw material requirements are fulfilled through imports. Further, the company exports to countries like Vietnam and Nigeria, which forms ~ 9 percent of the total turnover. Thus, a natural hedge exists for forex exposure to some extent and the company also hedges 30-35 percent transactions. However, some exposure remains unhedged, thus, AOL is exposed to forex fluctuation risk.

Liquidity position

AOL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. AOL generated cash accruals of Rs.1.32-2.44 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.63-0.70 crore over the same period. The cash accruals of AOL are estimated to remain around Rs.3.9-5.7 crore during 2019-21, while its repayment obligations are estimated to be around Rs. 0.80-0.83 crore. AOL maintains unencumbered cash and bank balances of Rs. 0.89 crore as on March 31, 2019. The current ratio of AOL stood moderate at 1.44 times as on March 31, 2019. Acuite believes that the liquidity of AOL is likely to remain adequate over the medium term on account of growing cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuite believes that AOL will maintain a 'Stable' outlook and continue to benefit over the medium term from its promoters' extensive experience in the chemical industry. The outlook may be revised to 'Positive' in case of significant growth in revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or margins that lead to deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	79.80	65.30	52.46
EBITDA	Rs. Cr.	5.84	4.86	3.79
PAT	Rs. Cr.	1.81	1.76	0.85
EBITDA Margin	(%)	7.32	7.45	7.23
PAT Margin	(%)	2.27	2.70	1.61
ROCE	(%)	18.77	22.78	19.87
Total Debt/Tangible Net Worth	Times	0.95	2.69	2.93
PBDIT/Interest	Times	2.25	2.36	1.88

Total Debt/PBDIT	Times	2.64	3.25	3.46
Gross Current Assets (Days)	Days	203	184	180

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

Not applicable

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
15-Nov-2018	Cash Credit	Long Term	13.50	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	1.66	ACUITE BB / Stable (Upgraded)
	Proposed Bank Facility	Long Term	1.35	ACUITE BB / Stable (Upgraded)
	Letter of Credit	Short Term	18.25	ACUITE A4+ (Upgraded)
04-Apr-2018	Cash Credit	Long Term	9.75	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE B+ / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.37	ACUITE B+ / Stable (Reaffirmed)
	Term Loan	Long Term	0.61	ACUITE B+ / Stable (Withdrawal)
	Letter of Credit	Short Term	12.25	ACUITE A4 (Reaffirmed)
29-May-2017	Cash Credit	Long Term	9.75	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	2.60	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	2.25	ACUITE A4 (Assigned)
	Term Loan	Long Term	0.61	ACUITE B+ / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.16	ACUITE B+ / Stable (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	9.75	ACUITE BB / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.86	ACUITE BB/Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.25*	ACUITE A4+ (Reaffirmed)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE BB / Stable (Reaffirmed)

*LC limit with sublimit of CC up to Rs. 3.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Sushmita Murai Analyst - Rating Operations Tel: 02249294033 sushmita.murai@acuiteinratings.in	Varsha Bist Manager - Rating Desk Tel: 022-4929-4021 rating.desk@acuite.in

About Acuite Ratings & Research:

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