

Press Release

AMBANI ORGANICS LIMITED (ERSTWHILE AMBANI ORGANICS PRIVATE LTD)

April 09, 2021



Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.34.76Cr.
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 short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.34.76 Cr bank facilities of Ambani Organics Limited (AOL). The outlook is '**Stable**'.

Ambani Organics Limited is a Maharashtra based Company incorporated in the year 1985 as a Private Limited Company. Later in the year 2017, the constitution of the company was changed to Public Limited and got listed in NSE in the year 2018. The company is engaged in manufacturing specialty chemicals that are extensively used in the industries like Paint, Paper, Automobile and Agriculture among others. The company has two manufacturing units located at Tarapur-Maharashtra with combined manufacturing capacity of 15300MTPA. The capacity utilization stood at around 74.29 percent in FY2020 as against 70.02 percent in FY2019.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations, experienced management and wide range of product offerings**

Incorporated in the year 1985, AOL has a long track record of operation of more than three decades in the aforementioned industry. The Promoter and the Managing Director of the company Mr. Rakesh Shah holds more than three decades of experience in the chemical industry. He is ably assisted by a second line of management who holds experience of more than two decades in the aforementioned industry. The extensive experience of the promoters and established track record of operation has helped the company to maintain a healthy relationship with its customers and suppliers.

The company offers a range of multiple specialty chemicals including binders, PVP, arcyclic emulsions, acrylic polymers, thickeners, paint driers to name a few which finds application in various industries including paper industry, textile industry, carpet industry, etc. Thus being the manufacturer of an important raw material for many industries has helped the company to maintain a diversified clientele profile and has also helped the company to cater new customers over the years. The company is also engaged in exporting its products to countries like Nigeria, Vietnam, etc.

Acuité believes that the company will benefit from its experienced management, long track of operation and offering of wide range of products.

- **Moderate Financial Risk Profile**

AOL's financial risk profile is moderate marked by moderate net worth, high gearing coupled with moderate debt protection metrics and coverage indicators. The company's net worth stood at Rs.17.09Cr as on March 31, 2020 as against Rs.15.61Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020. This is on account of limited accretion to reserves over the period. The company has followed aggressive financial policy in the past which can be marked with peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 2.69 times and 6.99 times in FY2018. The gearing and total outside liabilities to tangible net worth (TOL/TNW) stood at around 1.17 times and 2.67 times respectively as on March 31, 2020 as against 0.95 times and 2.96 times respectively as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.2.29Cr in FY2020 as against Rs.2.44Cr in FY2019.

The revenue of the company has declined marginally by around 7.94 percent to Rs.73.24Cr in FY2020. EBITDA in absolute term has declined to Rs.5.36Cr in FY2020 as against Rs.5.59Cr in FY2019. Subsequently, the PAT of the company has declined to Rs.1.51Cr in FY2020 from Rs.1.81Cr in FY2019. The company's profitability margin has improved in FY2020 as against FY2019. Raw material cost constitutes more than 80 percent of the total turnover and also the company has significant exposure to forex exposure. Thus any fluctuation in the price of the raw material and forex fluctuation will affect the profitability of the company. However, the forex fluctuation risk is largely mitigated as it is hedged naturally as the company has similar amount of exports as well. In the current financial year, the company has exported around Rs.21.99Cr till February 2021 which accounts 90 percentage of imports (import stands at Rs.24.38Cr). The operating margin of the company stood at 7.31 percent in FY2020 as against 7.03 percent in FY2019. The PAT margin has declined to 2.07 percent in FY2020 as against 2.27 percent in FY2019.

The decline in the profitability level, coupled with moderate debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.12 times and 2.27 times respectively as against 0.17 times and 2.24 times in FY2019, respectively. The debt service coverage ratio stood 1.56 times in FY2020 as against 1.54 times in FY2019. The Debt-EBITDA ratio stands at 3.72times in FY2020 against 2.64times in FY2019.

The company has already booked revenue of Rs.59.12Cr (Est.) for 10months for FY2021. The company is currently focusing in further diversifying the products for which the company has already gone for capex plan. The company will be manufacturing more diversified and important water soluble chemical products.

Acuite believes the financial risk profile of the company will continue to remain moderate on account of its healthy revenue growth, expected improvement in cash accruals and moderate leverage policy in near to medium term.

Weaknesses

- **Working capital operation is intensive in nature**

AOL's working capital operation is intensive in nature as it is reflected by its Gross Current Asset (GCA) days of around 214 days in FY2020 as against 203 days in FY2019. This is inherent in the aforementioned industry due to the nature of the product. The inventory holding period has elongated to 89 days as on March 31, 2020 as against 84 days as on March 31, 2019 due to the year-end impact. The debtor collection period has elongated to 100 days as on March 31, 2020 as against 88 days as on March 31, 2019. On the other hand, the company's credit payment period has improved to 97 days as on March 31, 2020 as against 131 days as on March 31, 2019. However, in FY2021, the debtor collection and the credit payment period is expected to improve. The average bank limit utilization stood moderately high at around 88.40 percent for six months ended January, 2021, while its peak utilization was high at around 94.56 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of high debtor collection.

Liquidity Position: Adequate

The company has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.29Cr in FY2020, while its' maturing debt obligation were in the range of Rs.0.60Cr to Rs.0.70Cr for the same period. The cash accrual of the company is estimated to remain around Rs.2.60Cr to Rs.5.00Cr during 2021-23 against repayment obligations of around Rs.1.00Cr to Rs.2.00Cr during the same period. The company's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 214 days in FY2020 as against 203 days in FY2019. The average bank limit utilization stood moderately high at around 88.40 per cent for six months ended January, 2021. The company maintains unencumbered cash and bank balances of Rs.0.34Cr as on 31 March 2020. The current ratio of the company has improved to 1.64 times as on 31 March 2020 from 1.44 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals to its maturing debt obligations.

Rating Sensitivities

- Any further elongation of working capital cycle will lead to increase in the dependence on borrowings which will be a key rating sensitivity
- Maintaining stable profitability margin along with sustained operating performance

Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and moderate financial risk profile. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while improving its operating margins from its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	73.24	79.55
PAT	Rs. Cr.	1.51	1.81
PAT Margin	(%)	2.07	2.27
Total Debt/Tangible Net Worth	Times	1.17	0.95
PBDIT/Interest	Times	2.27	2.24

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
25-Jul-2019	Cash Credit	Long Term	9.75	ACUITE BB/Stable (Reaffirmed)
	Term Loans	Long Term	1.86	ACUITE BB/Stable (Reaffirmed)
	Letter of Credit	Short Term	12.25	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	4.90	ACUITE BB/Stable (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	6.00	ACUITE A4+ (Reaffirmed)
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+ (Withdrawn)
	Letter of Credit	Short Term	12.25	ACUITE A4 (Reaffirmed)

***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	12.50 (Enhanced from Rs.9.75Cr)	ACUITE BB/Stable (Reaffirmed)
Term Loan-I	March 2016	Not Available	March 2023	1.21 (Revised from Rs.1.86Cr)	ACUITE BB/Stable (Reaffirmed)
Term Loan-II	Not Available	Not Available	Not Available	4.00	ACUITE BB/Stable (Assigned)
Term Loan-III	Not Available	8.00%	Not Available	0.98	ACUITE BB/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.50* (Enhanced from Rs.12.50Cr)	ACUITE A4+ (Reaffirmed)
Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.57 (Revised from Rs.6.00Cr)	ACUITE A4+ (Reaffirmed)

* LC Limit with Sublimit of Cash Credit up to Rs.3.75Cr and also includes Bank Guarantee as a Sub Limit of Rs.15.50Cr

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About Acuité Ratings & Research:

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