Press Release

Hema Dyechem Private Limited

June 23, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 12.50 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-' (read as SMERA BBB minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs. 12.50 crore bank facilities of Hema Dyechem Private Limited. The outlook is **'Stable'**.

Hema Dyechem Private Limited (HDPL), the erstwhile Hema Chemical Company, was established by Mr. Anil Merchant in 1975 and converted to private limited in 2003. The company is engaged in the manufacturing of benzene based chemical intermediaries (2.4.5 Trichloro Ailine, 2-Chloro 1-4 Dimethoxy Benzene among others) that find application in the paint industry, in coolants (electrical installations), agro chemicals among others. The manufacturing unit is located at Vapi (Gujarat) with installed capacity of 2340 metric tonnes per annum.

Key Rating Drivers

Strengths

• **Experienced management**
Mr. Anil Merchant, Mr. Nishith Merchant and Mr. Shashank Merchant (Directors), possess over four decades of experience in chemical industry. Due to the long standing experience and established track record of operations, the promotors have been able to add new products and maintain healthy relations with customers and suppliers.

• **Healthy revenue growth and improved operating margins**
The company registered healthy revenue growth of 18 percent in FY2015-16. This is on account of better sales realisation and volume growth of 7.64 percent and 20.10 percent respectively over the previous year. For FY2017, the operating income stood at Rs.40.00 crore (Provisional). The company's EBIDTA margins stood at 21.39 percent in FY2016 as compared to 18.51 percent in FY2015. The PAT margins stood at 12.88 percent in FY2016 as compared to 9.88 percent in FY2015. The company has improved operating margins on account of decline in raw material cost as a percentage of sales.

• **Healthy financial risk profile**
The financial risk profile is above average marked by moderate net worth of Rs.23.56 crore as on 31 March, 2016. The gearing (debt to equity ratio) is low at 0.25 times as on 31 March, 2016 compared to 0.48 times as on 31 March, 2015. The Interest coverage ratio (ICR) stood at 12.85 times in FY2016 as against 6.65 times in FY2015 and DSCR at 6.60 times in FY2016 compared to 4.21 times in FY2015. Going forward, the gearing and coverage indicators are expected to remain healthy due to the healthy profitability and absence of debt funded capex.

Weaknesses

• **Moderate working capital intensity**
HDPL's working capital operations are moderate with Gross Current Assets (GCAs) of 105 days. This is on account of moderate inventory and debtor days of 55 and 49 respectively in FY2016. Further, the average utilisation in the cash credit account has been around 80 percent in the last six months ended April 2017.

• **Profit margins susceptible to volatility in raw material prices and forex risk**
The company's exports constitute around 70 percent of sales and imports are about 20 percent of total purchases. As a result, the profitability margins are susceptible to volatility in the raw material prices of chemicals and fluctuations in forex rates. While the company benefits from natural hedge to a certain extent, it is exposed to forex fluctuation risk for the unhedged part.

• **Highly competitive and fragmented industry**
The company is exposed to intense market competition from organised and unorganised players in the chemical industry.

Analytical Approach
SMERA has considered the standalone business and financial risk profile of the company to arrive at the rating.

Outlook: Stable
SMERA believes that HDPL will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials
For FY2015-16, the company registered profit after tax (PAT) of Rs.6.54 crore on operating income of Rs.50.76 crore as against PAT of Rs.4.15 crore on operating income of Rs.41.99 crore in the previous year. The net worth stood at Rs.23.56 crore as on 31 March, 2016 compared to Rs.17.02 crore as on 31 March, 2015.

Status of non-cooperation with previous CRA (if applicable)
CARE ratings vide release dated 17th March, 2017 classified HDPL as 'Issuer Not Cooperating' due to lack of adequate information.

Any other information
None

Applicable Criteria

• Default Recognition - https://www.smera.in/criteria-default.htm
• Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm
• Manufacturing Entities - https://www.smera.in/criteria-manufacturing.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of	Coupon	Maturity	Size of the Issue	Ratings/Outlook

	Issuance	Rate	Date	(Rs. Cr.)	
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.20	SMERA A3

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Ankit Gupta Analyst - Rating Operations Tel: 022-67141263 ankit.gupta@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

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