

Press Release

Gopinath Chem Tech Limited

August 11, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 29.00 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. 29.00 crore bank facilities of Gopinath Chem Tech Limited. The outlook is '**Stable**'.

Gopinath Chem Tech Limited (GCTL) was incorporated in 1989 by Mr Bhupen Shah. The company is engaged in the manufacture and export of dyes and intermediates at Kadi and Chattral, Mehsana, Gujarat. The combined installed capacity stands at 3,200 MTPA as on 31 March, 2016.

Key Rating Drivers

Strengths

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

The promoter, Mr Bhupen Shah has almost three decades of experience in the dyeing industry. The company has established long term relations with customers and suppliers. Gopinath Chem Tech Limited is the flagship company of the Gopinath group of industries. Other companies of the group, Gautam Industrial Corporation, Laakoonaa Reactions, Larsen Color Chem and Vasudev Dyechem Private Limited are also engaged in the aforementioned business and undertake job work related to organic dyes, dye intermediates for GCTL.

- **Steady revenue growth and improvement in margins in FY2017**

The company registered steady revenue growth at a CAGR of 13 per cent in the last three years ended FY2017 (Provisional). The company registered 33 per cent growth in revenue to Rs 148.42 crore in FY2017 from Rs 111.55 crore in FY2016 mainly due to increase in orders. The operating margins improved to 5.68 per cent in FY2017 (Provisional) from 5.46 percent in FY2016. The company has also made additions to its product mix and increased the number of pollution treatment plants. The net profit margin improved from 1.75 per cent in FY2016 to 2.36 per cent in FY2017 (Provisional). SMERA believes that increase in revenue growth and sustaining improvement in margins over the medium term will be the key rating sensitivity factors.

- **Strong financial risk profile**

The strong financial risk profile is marked by healthy network, strong capital structure and comfortable debt protection metrics. The network is healthy at Rs 25.92 crore in FY2017 (Provisional) as against Rs 21.14 crore in FY2016. The gearing improved from 1.03 times in FY2016 to 0.71 times in FY2017 (Provisional). The total debt of Rs.18.31 crore in FY2017 (Provisional) consists of Rs 1.25 crore of unsecured loan from relatives and others, Rs.15.13 crore of short term debt and a term loan of Rs 1.93 crore. GCTL reported comfortable interest coverage ratio of 3.46 times in FY2017 (Provisional) against 2.57 times in FY2016 and strong Net Cash accruals to Total Debt (NCA/TD) of 0.26 times in FY2017 (Provisional). The Debt service Coverage ratio (DSCR) has been comfortable at 2.87 times in FY2017(Provisional).

Weaknesses

• Working capital intensive operations

The working capital intensive operations are marked by high Gross Current Asset days of 155 and 126 in FY2017 (Provisional) and FY2016 respectively. This is mainly due to high inventory days of 57 and 79 in FY2017 (Provisional) and FY2016 respectively and moderate debtor days of 69 and 65 in FY2017 (Provisional) and FY2016 respectively.

• Susceptibility to changes in the prices of raw material

The raw material cost accounts for about 82 per cent of the operating income. The raw materials are downstream petrochemical products and are therefore vulnerable to volatility in crude oil prices. Around 30 per cent of the raw material is imported from China with the rest procured from the local market. Sharp decline in raw material prices may impact operating margins. Moreover, intense competition in the industry limits pricing flexibility.

• Highly competitive and fragmented industry

The company is exposed to intense competition in the Indian dyestuff sector. Furthermore, growth in the dyestuff industry depends largely on the changes in government regulations and end-user industries - textile, leather and paper.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that GCTL will maintain a stable outlook over the medium term owing to its promoters extensive experience in the chemical industry. The outlook may be revised to 'Positive' in case GCTL achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

The company reported Profit after tax (PAT) of Rs 3.50 crore against operating income of Rs 148.52 crore in FY2015-16. For FY2014-15 the company reported PAT of Rs 1.96 crore against operating income of Rs 111.55 crore.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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)

Not Applicable

*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	18.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	30-Nov-2023	2.00	SMERA BBB- / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.80	SMERA A3
Proposed	Not Applicable	Not Applicable	Not Applicable	1.20	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A3

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ABOUT SMERA

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