

Press Release

Gopinath Chem Tech Limited

October 23, 2018

Rating Reaffirmed and withdrawn



Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 29.00 crore bank facilities of Gopinath Chem Tech Limited (GCTL). The outlook is '**Stable**'.

Further, Acuite has withdrawn the rating of **ACUITE A3** (read as **ACUITE A3**) on the Rs. 1.80 crore bank facilities.

The Gujarat based, GCTL was established in 1989 as a Private Limited company and subsequently converted into a Public Limited company in 1995. The company is engaged in manufacture and export of dyes and intermediates. The company has three manufacturing unit located at Kadi, Chhatral and Mehsana (Gujarat) with a combined installed capacity of 3,200 MTPA.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of GCTL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

GCTL was incorporated in 1989 and is led by Mr. Bhupen Shah and Mr. Mahendra. The Directors have established presence in the Dyes and intermediates industry for over two decades. The promoters are supported by Mr. Parthay Shah and Mr. Dharit Shah having experience of over a decade in the industry. The experience of the promoters has led to established market presence of GCTL enabling it to build strong business ties with its suppliers and customers.

- Improved operating performance**

GCTL has reported operating income of Rs.178.87 crore in FY2018 as against Rs.148.38 crore in FY2017. The company has reported revenues of ~Rs.133 crore for the period April to September 2018. This is the result of increased prices of finished goods and higher capacity utilisation. Further, the company in FY2018 has adopted a strategy to produce high yield products in its own facility and get the key raw materials manufactured through job work from group companies. This has enabled the company to benefit from increased prices of finished goods and improved profitability. The operating margins of GCTL stood at 5.99 percent in FY2018 as against 5.67 percent in FY2017. The operating margins are expected to improve in FY2019. The profit after tax margin stood at 2.61 percent in FY2018 as against 2.15 percent in FY2017. GCTL reported Return on capital Employed of 18.26 percent in FY2018 as against 16.30 percent in FY2017.

Acuite believes that the company will maintain its pace of growth over the near to medium term on the back of additional capacity available through group companies which GCTL utilises on job work basis and its plans to explore newer markets.

Weaknesses

• Moderate financial risk profile

GCTL's financial risk profile stood moderate marked by tangible net worth of Rs.28.39 crore as on March 31, 2018 against Rs.23.73 crore as on March 31, 2017. The gearing (debt-equity) has deteriorated to 1.01 times as on March 31, 2018 as against 0.84 times as on March 31, 2017. This is mainly due to increase in working capital limits to Rs.23.50 crore as on March 31, 2018 from Rs.15.76 crore as on March 31, 2017. The interest coverage ratio stood at 4.40 percent in FY2018 as against 3.51 percent in FY2017. The TOL/TNW stood at 2.72 times in FY2018 as against 2.19 times in FY2017.

• Deterioration in Working capital efficiency

GCTL's working capital efficiency has deteriorated in FY2018 due to extended credit offered to its customers and high inventory maintenance. The company had Gross Current Assets (GCA) of 162 days in FY2018 as against 130 days in FY2017 mainly due to high inventory of 66 days (previous year: 58 days) and debtors of 89 days (previous year: 65 days). Given the growth in scale of operations along with geographic spread, the company's ability to manage receivables within acceptable levels is critical. GCTL's working capital is supported by significant support from trade creditors (Non LC creditors) and has benefited from significant trade credit in the past. Acuite believes that for GCTL to maintain its liquidity profile, the management of inventory and receivables and the continued ability to avail trade credit from its suppliers will be critical.

• Susceptibility to changes in the prices of raw material

The raw material cost accounts for about 80 percent of the operating income. The raw materials are downstream petrochemical products and are therefore are vulnerable to volatility in crude oil prices. The company procured around 30 percent of the raw material 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.

Outlook: Stable

Acuite believes that GCL will maintain a 'Stable' outlook over the medium term owing to its promoter's 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	178.87	148.38	111.55
EBITDA	Rs. Cr.	10.72	8.41	6.09
PAT	Rs. Cr.	4.67	3.18	1.96
EBITDA Margin	(%)	5.99	5.67	5.46
PAT Margin	(%)	2.61	2.15	1.75
ROCE	(%)	18.26	16.30	23.58
Total Debt/Tangible Net Worth	Times	1.01	0.84	1.03
PBDIT/Interest	Times	4.40	3.51	2.57
Total Debt/PBDIT	Times	2.61	2.28	3.40
Gross Current Assets (Days)	Days	162	130	156

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>
- 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 the Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Aug-2017	Cash Credit	Long Term	18.00	ACUITE BBB-/Stable (Assigned)
	Term loans	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Stand By Line of Credit	Short Term	1.80	ACUITE A3 (Assigned)
	Proposed bank Facility	Long Term	1.20	ACUITE BBB-/Stable (Assigned)
	Letter of credit	Short Term	6.00	ACUITE A3 (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	20.00* (Revised from Rs.18 Cr.)	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00 (Revised from Rs.1 Cr.)	ACUITE BBB- / Stable (Reaffirmed)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A3 (Withdrawn)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00** (Revised from Rs.6 Cr.)	ACUITE A3 (Reaffirmed)

*Includes sublimit of Rs.20.00 crore each of FBD and EPC/PCFC.

** Includes sublimit of Rs.0.75 crore of bank guarantee and Rs.8.00 crore of buyers credit.

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About Acuité Ratings & Research:

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