

## Press Release

**M J Chemicals  
(MJC)**

12 September, 2017



### Rating Assigned

|                                     |             |
|-------------------------------------|-------------|
| <b>Total Bank Facilities Rated*</b> | Rs. 8.00 Cr |
| <b>Short Term Rating</b>            | SMERA A4+   |

\*Refer Annexure for details

### Rating Rationale

SMERA has assigned short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs.8.00 crore bank facilities of M J Chemicals (MJC).

MJC, established in 1977, is a Mumbai-based firm engaged in the trading of chemicals and solvents.

### List of key rating drivers and their detailed description

#### Strengths

##### **Long track record of operations and experienced management**

The firm led by Mr. Mafatlal Shah and Mr. Shailesh Shah commenced operations from 1977. The promoters possess experience of about four decades in the industry. The long standing presence in the business has helped the firm establish healthy relations with suppliers and customers.

#### **Reputed customer base**

The firm has a diversified range of chemicals (crude oil derivatives) and caters to Hazel Mercantile Limited, Bharat Petroleum Corporation Limited, IOCL among others.

#### **Weaknesses**

##### **Moderate financial risk profile**

The net worth stood low at Rs.4.33 crore as on 31 March, 2017 (Provisional) compared to Rs.2.80 crore as on 31 March, 2016.

The TOL to TNW ratio stood high at 4.51 times (gearing at 0.71 times) as on 31 March, 2017 (Provisional) compared to 5.32 times (gearing at 1.37 times) as on 31 March, 2016. The interest coverage ratio stood moderate at 1.73 times in FY2017 (Provisional) compared to 1.82 times in FY2016.

#### **Modest profitability**

Limited value additive nature of the trading business has led to low operating profitability at 1.93 per cent in FY2017 (Provisional) as against 1.86 per cent in FY2016. The profitability is also susceptible to price fluctuations and volatility in foreign currency exchange rates (imports around ~25 per cent of purchases).

At net level, the firm's profit margin continues to remain subdued at below 1 per cent owing to high borrowing cost.

**Highly competitive and fragmented industry:** The chemical trading industry is highly fragmented with a large number of organised and unorganised players. Further, on account of its trading nature of business, the entry barriers are low, leading to stiff competition.

**Analytical approach:** SMERA has considered the standalone financial and business risk profiles of the firm to arrive at the ratings.

### Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

### About the Rated Entity

MJ Chemicals was established in 1977 under the partnership of Mr. Mafatlal Shah, Mr. Shailesh Shah and Mrs. Gunvanti Shah. Later in 2011, Mr. Viral Shah joined in as a partner. The firm is engaged in the trading of chemicals and solvents - derivatives of crude oil. The firm imports around 25 per cent from China, European countries, South Korea, etc. and the rest is purchased domestically.

For FY2015-16, MJC reported net profit of Rs.0.59 crore on operating income of Rs.69.19 crore, as compared to net profit of Rs.0.20 crore on operating income of Rs.66.65 crore in FY2014-15. As per the provisional figures of FY2017, the firm earned operating income of Rs.85.97 crore and net profit of Rs.0.70 crore.

**Status of non-cooperation with previous CRA (if applicable):** CRISIL in the press release dated December 29, 2016 has suspended the rating of M.J. Chemicals and has stated the following "he suspension of ratings is on account of non-cooperation by MJC with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, MJC is yet to provide adequate information to enable CRISIL to assess MJC's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information."

**Any other information:** Not Applicable

**Rating History for the last three years:**

| Name of Instrument /Facilities                 | FY2017 |                    |                      | FY2016 |        | FY2015 |        | FY2014 |        |
|--|--------|--------------------|----------------------|--------|--------|--------|--------|--------|--------|
|  | Scale  | Amount (Rs. Crore) | Rating with Outlook  | Date   | Rating | Date   | Rating | Date   | Rating |
| Import Letter of Credit**                      | ST     | 4.00               | SMERA A4+ (Assigned) | -      | -      | -      | -      | -      | -      |
| Letter of Guarantee                            | ST     | 3.00               | SMERA A4+ (Assigned) | -      | -      | -      | -      | -      | -      |
| Proposed Letter of Credit/Letter of Guarantee^ | ST     | 1.00               | SMERA A4+ (Assigned) | -      | -      | -      | -      | -      | -      |

\*\*One way interchangeability from LC to LG

\*\*CC of Rs.3.50 crore sublimit of LC

^Proposed CC of Rs.1.00 sublimit of LC/BG

**\*Annexure - Details of instruments rated:**

| Name of the Facilities                         | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook      |
|--|------------------|-------------|---------------|-------------------------------|----------------------|
| Import Letter of Credit**                      | NA               | NA          | NA            | 4.00                          | SMERA A4+ (Assigned) |
| Letter of Guarantee                            | NA               | NA          | NA            | 3.00                          | SMERA A4+ (Assigned) |
| Proposed Letter of Credit/Letter of Guarantee^ | NA               | NA          | NA            | 1.00                          | SMERA A4+ (Assigned) |

\*\*One way interchangeability from LC to LG

\*\*CC of Rs.3.50 crore sublimit of LC

^Proposed CC of Rs.1.00 sublimit of LC/BG

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

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**ABOUT SMERA**

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