

Press Release

Chemtrade Overseas Private Limited (COPL)

02 January, 2018



Rating Assigned

Total Bank Facilities Rated	Rs. 25.00 crore
Long Term Rating	SMERA BB+/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

* Refer Annexure for details

SMERA has assigned long term rating of '**SMERA BB+**' (**read as SMERA double B plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the above bank facilities of Chemtrade Overseas Private Limited (COPL). The outlook is '**Stable**'.

Established in 1992 as Chemtrade a proprietorship firm, COPL changed its constitution to private limited in 2007. The company imports and trades in chemicals used in several industries including pharmaceuticals, petrochemicals, paints among others. The registered office is located in Mumbai.

List of key rating drivers and their detailed description:

Strengths

Long track record of operations, experienced promoters: COPL was established in 1992. The Directors, Mr. Jatin Bhupendra Shah, Mr. Niraj Bhupendra Shah, Mr. Ashish Kirtikumar Shah and others have experience of around two decades in the chemical trading business.

SMERA believes that COPL will continue to benefit from its established position in the market and experienced management.

Increasing revenue trend: COPL's revenues depict a rising trend since 2015. Revenue increased to Rs.479.89 crore in FY2017 from Rs.360.12 crore in FY2016 and Rs.330.93 crore in FY2015. The increase is mainly attributed to expansion in the company's product portfolio and healthy demand for its product offerings. Further, as informed by the management, COPL has registered operating income of Rs.342 crore for the period April, 2017 to November, 2017.

Moderate financial risk profile: The financial risk profile is moderate marked by net worth of Rs.16.78 crore as on 31 March, 2017 as against Rs.15.70 crore as on 31 March, 2016. The net worth includes interest bearing unsecured loan to the tune of Rs.9.00 crore and subordinated debt. The gearing remains moderate at 1.32x times in FY2017 as against 1.71x times in FY2016. The total debt of Rs.22.23 crore mainly consists of short term working capital limit of Rs.21.27 core and unsecured loan of Rs. 0.96 crore from relatives and directors.

The Interest Coverage Ratio (ICR) remains modest at 1.68x times for FY2017 as against 1.37x times in previous year. The Total outside liabilities to total networth (TOL/TNW) stood at 10.75x times as on 31 March, 2017 as compared to 7.95x times in the previous year which is mainly on account of increase in trade payables liabilities in Q4FY2017.

Going forward, the gearing is expected to moderately increase with the company availing a short term working capital facility.

Weaknesses

Low profitability and volatility in raw material prices

COPL reported operating margin of 0.88 percent for FY2017 as against 1.06 percent in FY 2016. Further, the company registered Profit after Tax (PAT) of 0.22 percent for FY2017 as against 0.19 percent in the previous year. The low profit margins are primarily due to the trading nature of business.

Highly competitive and fragmented industry The chemical industry is highly competitive and vulnerable to fluctuations in raw material prices. The company imports ~85 per cent of its raw materials and hence is exposed to foreign exchange fluctuation risk in the absence of a concrete hedging policy.

Working capital intensive operations: The operations are working capital intensive, as is evident in the high Gross Current Asset (GCA) days of 143 for FY2017 as against 136 days for FY 2016. This on account of stretched debtor position which stood at 117 days in FY2017 as against 116 days in the previous year. Moreover, the company fully utilises its cash credit limit.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of COPL.

Outlook: Stable

SMERA believes that COPL will maintain a Stable outlook in the medium term on the back of established operations and long standing experience of the promoter. The outlook may be revised to 'Positive' in case of significant improvement in revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity or financial risk profile on account of large unanticipated debt funded capex.

About the rated entity - key financials

For FY2017, COPL reported profit after tax (PAT) of Rs. 1.20 crore on operating income of Rs.479.89 crore compared with PAT of Rs.0.82 crore on operating income of Rs. 360.12 crore for FY2016. The net worth stood at Rs. 16.78 crore as on 31 March, 2017 as against Rs. 15.70 crore as on 31 March, 2016.

Applicable Criteria

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

Status of non-cooperation with previous CRA:

ICRA has been consistently following up with Chemtrade Overseas Private Limited for obtaining the monthly 'No Default Statement' and had also placed the ratings under review due to non-submission of NDS in the month of October, 2017. However the entity's management has remained non-cooperative.

Any other information: Not Applicable

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	5.00	SMERA BB +/ Stable (Assigned)
ILC/FLC*	NA	NA	NA	20.00	SMERA A4+ (Assigned)

* Includes sublimit of Buyers Credit upto Rs.7.00 crore

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ABOUT SMERA

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