

Press Release

Chemtrade Overseas Private Limited

July 16, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 35.00 crore (Enhanced from Rs. 25.00 crore)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 35.00 crore (enhanced from Rs.25.00 crore) bank facilities of Chemtrade Overseas Private Limited (COPL). The outlook is '**Stable**'.

About Company

Chemtrade Overseas Private Limited (COPL) was initially established as proprietorship firm in 1992 and constitution was changed to private limited company in November 2007. The company is based out of Mumbai and is engaged in trading and import of chemicals and solvents used in several industries like pharmaceuticals, petrochemicals, and paints among others. The day to day affairs of the entity are managed by Mr. Ashish Shah and Mr. Jatin Shah. They are second generation entrepreneurs and also exports to countries like USA, UK and several places of European countries which contributes to 5 percent of revenues.

Rationale for rating reaffirmation

The rating is based on expected improvement in operating performance in FY2022, on back of favorable industry prospects. The margins and net cash accruals also stood improved in FY2021 (Provisional). Moreover, company has undertaken changes in capital structure by adding of Rs.2.50 crore in paid up capital at premium of Rs.22.50 crores in FY2022, thereby improving overall debt protection metrics and coverage indicators. Against the uncertain backdrop of second wave of pandemic, Acuité believes that the COPL's overall performance will be less impacted in FY2022 and likely to improve further on account of increase in demand. Further, expected restoration of supply chain and picking up of domestic demand will help company performance to remain intact. However, growth in operating income may lead to incremental working capital requirements to maintain growth momentum. Any major impact on debt protection metrics or coverage indicators may lead to negative bias towards the rating.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of COPL to arrive at the rating.

List of key rating drivers and their detailed description:

Strengths

• Experienced management, established track record of operations and diversified products

COPL has established presence since 1992 in chemicals industry. 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. The company is supported by second line of management. The company has maintained longstanding relationships with its customers and suppliers. The same has resulted in recurring flow of orders and regular supply of raw materials. However, the operating income of the company stood decline at Rs. 572.50 crores in FY2021 (Provisional) as against Rs. 610.10 crores in FY2020, due to strategical change made in operations. The management of the COPL decided to focus on margins and deal with customers having good credit terms. The bottom line approach adopted by the company has demonstrated improvement in operating margins to 1.10 percent in FY2021 (Provisional) as against 0.87 percent in FY2020.

The PAT margins have also improved to 0.55 percent in in FY2021 (Provisional) as against 0.27 percent in FY2020. Further, company benefits from diversified product portfolio of over 150 products, which finds application in various industries will ensure steady flow of orders. Acuité believes that COPL's established market position, long track record of over two decades in the business and long standing relationship with its customers, suppliers will continue to benefit over the medium term.

• **Moderate financial risk profile**

The financial risk profile of the company remained moderate marked by moderate net worth, comfortable gearing and moderate debt protection metrics. The net worth of the company stood moderate at Rs. 50.65 crore as on March 31, 2021 (Provisional) as compared to Rs. 22.28 crore as on March 31, 2020. The net worth includes unsecured loans of Rs.9.08 crores subordinated with bank facility treated as quasi capital. This improvement in networth is mainly due to healthy accretion to reserve, and additional capital raised in FY2022 of Rs.2.50 crores at share premium of Rs. 22.50 crores. The gearing of the company stood comfortable at 0.13 times as on March 31, 2021(Provisional) as against 1.12 times as on March 31, 2020. The total debt of Rs. 6.64 crore consists of unsecured loans from promoters as on March 31, 2021. The Interest coverage ratio (ICR) stood improved at 2.48 times as on March 31, 2021(Provisional) as against 1.62 times as on March 31, 2020. The debt service coverage ratio (DSCR) stood at 2.11 times as on March 31, 2021(Provisional) as against of 1.44 times as on March 31, 2020. The net cash accrual against total debt (NCA/TD) stood at 0.50 times as on March 31, 2021(Provisional) as compared to 0.07 times in previous year. However, TOL/TNW stood high at 2.55 times as on March 31, 2021(Provisional) and 5.68 times in FY2020. Total Outsider Liabilities majorly consist of trade payables which are backed by LC upto 90 days.

Weaknesses

• **Elongation in working capital cycle**

The operations of the company remained moderately working capital intensive in nature marked by GCA of 109 days as on March 31, 2021 (Provisional) against 84 days in the previous year. The moderate GCA days are on account of moderate elongation in receivables days which stood at 78 days as on March 31, 2021 (Provisional) as against 60 days as on March 31, 2020. The inventory holding days though remained moderate at 29 days as on March 31, 2021(Provisional) as against 15 days as on March 31, 2020. The working capital limit utilization stood at 78.13 percent and non-fund based facilities in form of LC stood 95.00 percent utilised for last six month ending May 2021.

• **Highly competitive industry and susceptibility of margins to volatility in raw material prices**

The chemical trading industry is a highly fragmented industry and presence of large number of organised and unorganised players has created high competition in the industry. The group faces competition from large players as well as numerous players in the unorganised segment. Also, on account of its trading nature of business, the entry barriers are low thereby leading to stiff competition for players like COPL. Further, operating and profitability margins are expected to remain susceptible to fluctuations in the raw material prices of traded chemicals. The company is also exposed to forex risk as company is also involved into export and import of certain products. Acuité believes that the ability to pass on volatility in raw material to its customers while maintaining profitability and efficiently managing working capital cycle remain key rating sensitivity factors.

Rating Sensitivities

- Decline in profitability and net cash accruals
- Sustaining existing business and financial risk profile
- Higher than expected foreign exchange fluctuations
- Deterioration in working capital cycle impacting liquidity profile

Liquidity Position: Adequate

The Liquidity profile of the company stood adequate marked by net cash accruals of Rs. 1.60 – Rs.3.30 crores as against no major repayment obligation during FY2019-2021. The cash accruals are expected in the range of Rs. 3.00 – Rs.5.00 crore, against no debt obligations through FY22-24. The cash and bank balance stood at Rs. 1.20 crores and current ratio of the company stood at 1.45 times as on March 31, 2021 (Provisional). The gross current asset (GCA) days which stood moderate at 109 days in FY2021

(Provisional) as against 84 days in FY2020. The working capital limit utilization stood at 78.13 percent and non-fund based facilities in form of LC stood 95.00 percent utilised for last six month ended May 2021. Acuité believes that company's net cash accruals and un-utilised bank limits is expected to provide some cushion to incremental working capital requirement in short term.

Outlook: Stable

Acuité 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 decline in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	572.50	610.10
PAT	Rs. Cr.	3.15	1.63
PAT Margin	(%)	0.55	0.27
Total Debt/Tangible Net Worth	Times	0.13	1.12
PBDIT/Interest	Times	2.48	1.62

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

Infomerics vide its press release dated June 01, 2020 has revised rating to IVR BB/Stable/IVR A4; Issuer Not Cooperating category for rating of COPL.

Material Covenant

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Jul-2021	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Upgraded from ACUITE A4+)
27-Apr-2020	Cash Credit	Long Term	5.00	ACUITE BB+ Issuer not co-operating*
	Letter of Credit	Short Term	20.00	ACUITE A4+ Issuer not co-operating*
28-Feb-2019	Cash Credit	Long Term	5.00	ACUITE BB+ Issuer not co-operating*
	Letter of Credit	Short Term	20.00	ACUITE A4+ Issuer not co-operating*

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Jan-2018	Cash Credit	Long Term	5.00	ACUITE BB+/Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A4+ (Assigned)

***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	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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