

Press Release

Chemtrade Overseas Private Limited

October 14, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	5.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 bank facilities of Chemtrade Overseas Private Limited (COPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account COPL's moderate financial risk profile along with the company's experienced management and established track record of operations. The rating is however constrained by the company's stagnant operating performance on a year-on-year basis, moderately working capital intensive operations and susceptibility of profitability margins to volatility in raw material prices along with intense competition. Ability of the company to improve its scale of operations while maintaining profitability and any further deterioration in the working capital cycle will remain a key rating sensitivity factor.

About the Company

COPL was initially established as a proprietorship firm in 1992 and the 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.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

COPL has an established presence since 1992 in the chemical industry. The company is

promoted by Mr. Jatin B. Shah & Mr. Ashish K. Shah who are second generation entrepreneurs with an experience of around three decades in the chemical and solvents trading business. The promoters are being supported by its team of experienced professionals in managing day to day operations of COPL. The extensive experience of the promoters has enabled COPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that COPL will continue to benefit from its experienced management and established track record of operations.

Moderate financial risk profile

Financial risk profile of COPL is moderate marked by moderate networth, low gearing and comfortable debt protection metrics. The networth of the company has marginally improved to Rs.43 Cr as on 31 March, 2022 (Provisional) as against Rs.41 Cr as on 31 March, 2021 on account of moderate accretion to reserves. The gearing (debt-equity) has remained low at 0.14 times as on 31 March, 2022 (Provisional) as against 0.20 times as on 31 March, 2021 on account of absence of any long term debt. The gearing of the company is further expected to remain low over the medium term on account of absence of any debt funded capex plans in the future. The total debt of Rs.6 Cr as on 31 March, 2022 (Provisional) consists of only unsecured loans from directors.

The interest coverage ratio and DSCR both stood high at same level of 3.23 times for FY2022 (Provisional) as against 2.12 times and 1.85 times for FY2021 on account of absence of any debt repayment obligation. The Net Cash Accruals to Total debt stood high at 0.66 times for FY2022 (Provisional) as against 0.32 times for FY2021. The Total outside liabilities to Tangible net worth stood marginally improved to 3.22 times for FY2022 (Provisional) as against 3.25 times for FY2021.

Acuité believes that the financial risk profile of COPL will remain moderate over the medium term on account of low debt levels vis-à-vis moderate tangible net worth and comfortable debt protection metrics.

Weaknesses

Stagnant operating performance

COPL's revenue has been stagnating around Rs.600 Cr. It has reported revenues of Rs.556 Cr for FY2022 (Provisional) as against Rs.572 Cr in FY2021 and Rs.610 Cr in FY2020. This de-growth in revenue over the last 3 years is due to change in company's strategy to focus more on improving the operating and net profit margins and dealing with clients with better terms. The operations of the company were also somehow affected due to lockdown imposed in the first wave of pandemic. The products traded by the company were only sold in the domestic market during FY2021 & FY2022 and were not exported during the same period due to economic crisis of the countries like Sri Lanka & Bangladesh to which the products were earlier exported upto FY2020. The operating margin of the company has marginally declined to 1.01 percent in FY2022 (Provisional) as against 1.04 percent in FY2021 whereas the net profit margin of the company has improved to 0.71 percent in FY2022 (Provisional) as against 0.42 percent in FY2021 on account of decrease in the interest cost.

For the current year FY2023, as on August 2022, COPL has reported lower revenue of Rs.172 Cr and going forward from Q3 onwards, company has plans to commence with the export sales to countries like China, Middle East, Thailand, USA amongst others which will help in scaling up the overall revenue for FY2023 in line with FY2022. Acuité believes that COPL's ability to improve its scale of operations while maintaining profitability in near to medium term will remain a key rating sensitivity factor.

Working capital intensive operations

The operations of COPL are moderately working capital intensive marked by its Gross Current Assets (GCA) of 115 days for FY2022 (Provisional) as against 104 days for FY2021. This is primarily on account of its receivable days which stood elongated at 85 days in FY2022 (Provisional) as against 74 days in FY2021. On the other hand, inventory cycle of the company stood marginally improved at 25 days in FY2022 (Provisional) as against 29 days in FY2021 while the creditors cycle stood elongated at 90 days in FY2022 (Provisional) as against 82 days in FY2021.

Acuité believes that any further deterioration in the working capital cycle will remain a key monitorable.

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. COPL 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.

Rating Sensitivities

- Ability to improve scale of operations while maintaining profitability
- Any further elongation in working capital cycle

Material covenants

None

Liquidity position - Adequate

COPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.2 Cr to Rs.4 Cr during FY2020 to FY2022 (Provisional) against no repayment obligation during the same period. Going forward the NCA are expected of upto ~Rs.3 Cr for period FY2023-FY2024 against no repayment obligation for the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 115 days for FY2022 (Provisional) as against 104 days for FY2021 on account of elongated receivables cycle during the same period. The average bank limit utilization for 6 months' period ended August 2022 stood low at ~49 percent. Current ratio stands at 1.37 times as on 31 March 2022 (Provisional). The company has maintained cash & bank balance of Rs.0.16 Cr in FY2022 (Provisional).

Acuité believes that the liquidity of COPL is likely to remain adequate over the medium term on account of adequate cash accruals against no maturing debt obligations.

Outlook: Stable

Acuité believes that COPL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	555.66	572.44
PAT	Rs. Cr.	3.96	2.42
PAT Margin	(%)	0.71	0.42

Total Debt/Tangible Net Worth	Times	0.14	0.20
PBDIT/Interest	Times	3.23	2.12

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

- Infomercials vide its press release dated August 24, 2022 has revised rating to IVR B+/Stable/IVR A4; Issuer Not Cooperating category for rating of COPL.
- ICRA vide its press release dated October 26, 2021 has revised rating to ICRA B+/Stable; Issuer Not Cooperating category for rating of COPL.

Any other information

None

Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Jul 2021	Letter of Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	10.00	ACUITE A3 (Reaffirmed)
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*)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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