

Press Release

Ketul Chem Private Limited

April 27, 2019

Rating Reaffirmed



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs.119.00 Cr. |
| Long Term Rating | ACUITE BBB / Outlook: Stable |
| Short Term Rating | ACUITE A3+ |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.119.00 cr. bank facilities of Ketul Chem Private Limited. The outlook is **'Stable'**.

Ketul Chem Private Limited (KCPL), incorporated in 1990 is a Mumbai-based company promoted by Mr. Hasmukh Shah, Mrs. Perna H. Shah and Mr. Ketul Shah. The company is engaged in the trading of various chemicals including styrene monomer, polyester (PET) chips bottle grade, Toluene, propylene glycol and phenol which find application in paints, rubber, pharmaceuticals and other industries.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established presence in the chemical trading segment

The promoters, Mr. Hasmukh Shah and Mr. Bhupendra Shah have an extensive experience in the chemical trading segment for more than two decades. The extensive experience of the promoters and the established presence in the industry has helped the company to generate healthy relations with various customers and suppliers in both domestic as well as global market.

The business of KCPL can be classified into- Chemicals and Polymers. The company trades in various types of chemicals including petrochemicals, aroma chemicals used in the manufacturing of rubbers, paints, capsules, syrups to name a few. Further, KCPL is also engaged in the trading of polypropylene (PP), polyethylene (PE), polyethylene Terephthalate (PET), Polyvinyl Chloride, Ethyl Vinyl Acetate (EVA) among others used in plastic packaging

Acuite believes that KCPL will continue to benefit from the promoter's established presence in the chemical industry and its improving business risk profile over the medium term.

• Healthy financial risk profile

KCPL has healthy financial risk profile marked by healthy net worth and debt protection matrices. The net worth stood at Rs.70.62 crore as on 31 March 2018 as against Rs.59.46 crore as on 31 March 2017. The gearing (debt-equity) stood at 0.22 times as on 31 March 2018 as against 0.16 times as on 31 March 2017. The total debt as on 31 March 2018 mainly comprises of working capital borrowings of Rs.15.27 crore. The coverage indicators are above average marked by Interest Coverage Ratio (ICR) which stood at 4.62 times for FY2018 as against 5.65 times for FY2017. The Total Outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 1.21 times as on 31 March 2018 as against 1.54 times as on 31 March 2017.

Weaknesses

• Foreign exchange fluctuation risk

Around 40 percent of KCPL purchases are imports. The purchases are against LC of 90-120 days and around 1-2 percent of sales is exported. Thus, the company is exposed to foreign exchange fluctuation risk.

• Debt funded capex plans

KCPL is setting up manufacturing activity for pharma intermediaries at Dahej, Gujarat. The total cost of the project is ~Rs.20.00 crore which will be funded by the debt to equity ratio of 70:30. The commercial operations are expected to start by March 2020.

Acuite believes that timely completion of the project and commencement of operations will remain key rating sensitivity factor.

• Low profitability marked by trading nature of business

KCPL's operating margins stood at 2.80 percent for FY2018 as against 2.62 percent for FY2017. The margins are expected to decline in FY2019 on account of increase in the raw material cost. The net margins also stood low at 1.54 percent for FY2018 as against 1.77 percent for FY2017. The lower margins are mainly on account of trading nature of business and competitive industry limiting the bargaining power with the customers.

Liquidity position

KCPL generated cash accruals of Rs.1.90 - 7.90 crore during the last three years through 2017 - 18, against no debt obligations. The cash accruals of the company are estimated to remain at around Rs.5.70 - Rs.9.00 crore during 2019-21. The company has moderate working capital operations as marked by Gross Current Asset (GCA) days of 92 in FY2018. The company maintains unencumbered cash and bank balances of Rs.0.19 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.70 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual while its maturing debt obligations are estimated to be around of Rs.2.80 crore.

Outlook: Stable

Acuite believes that KCPL will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the chemical industry and established relations with clientele. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and liquidity or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion and working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 477.78 | 369.93 | 258.06 |
| EBITDA | Rs. Cr. | 13.39 | 9.68 | 3.05 |
| PAT | Rs. Cr. | 7.34 | 6.55 | 1.41 |
| EBITDA Margin | (%) | 2.80 | 2.62 | 1.18 |
| PAT Margin | (%) | 1.54 | 1.77 | 0.55 |
| ROCE | (%) | 18.61 | 19.72 | 11.63 |
| Total Debt/Tangible Net Worth | Times | 0.22 | 0.16 | 0.06 |
| PBDIT/Interest | Times | 4.62 | 5.65 | 3.37 |
| Total Debt/PBDIT | Times | 1.01 | 0.76 | 0.79 |
| Gross Current Assets (Days) | Days | 102 | 124 | 103 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.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 Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|------------------------------|
| 05-Feb-18 | Cash Credit | Long term | 3.00 | ACUITE BBB/Stable (Assigned) |
| | Cash Credit | Long term | 5.00 | ACUITE BBB/Stable (Assigned) |
| | Letter of credit | Short Term | 36.00 # | ACUITE A3+ (Assigned) |
| | Letter of credit | Short Term | 35.00 ## | ACUITE A3+ (Assigned) |
| | Letter of credit | Short Term | 15.00 | ACUITE A3+ (Assigned) |
| | Letter of credit | Short Term | 25.00 | ACUITE A3+ (Assigned) |

#Includes sublimit of Bank to the extent of Rs.4.00 crore.

Includes sublimit of Bank Guarantee to the extent of Rs.5.00 crore.

*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 | 3.00 | ACUITE BBB/Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | ACUITE BBB/Stable (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 36.00 # | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 35.00 ## | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 15.00 | ACUITE A3+ (Reaffirmed) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE A3+ (Reaffirmed) |

#Includes sublimit of Bank to the extent of Rs.4.00 crore.

Includes sublimit of Bank Guarantee to the extent of Rs.5.00 crore.

Contacts

| Analytical | Rating Desk |
|--|---|
| Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294022 avadhoot.mane@acuite.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in |

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.