

## Press Release

### Royal Synthetics

03 April, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 88.10 Crore
<b>Long Term Rating</b>	SMERA BBB/Stable (Assigned)
<b>Short Term Rating</b>	SMERA A3+ (Assigned)

\*Refer Annexure for details

### Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB**' (read as SMERA triple B) and short term rating of '**SMERA A3+**' (read as SMERA A three plus) on the Rs. 88.10 crore bank facilities of Royal Synthetics (RS). The outlook is '**Stable**'.

Royal Synthetics (RS) is a Mumbai-based partnership firm established in 1993 by Mr. Ajay N. Shah and Mrs. Urmila N. Shah. The firm is engaged in the trading of chemicals such as di-isocyanate, polyurethane, polyester polyol, bulk drugs, API (Active Pharma Ingredient), other additives and derivatives. The day-to-day operations are led by Mr. Ajay N. Shah and his father, Mr. Navinchandra N. Shah. The firm procures around 55 percent of its requirement for chemicals from Japan, Europe, USA and other Asian countries and the remaining from the domestic market. The firm caters to manufacturers of flexible slab stock foam, thermoware, refrigeration panels, paints and coatings in India.

### Key rating drivers

#### Strengths:

#### Established track record of operations and experienced management

The firm is engaged in the trading of chemicals for more than two decades. The firm also benefits from the extensive experience of its management including Mr. Ajay Shah and Mr. Navinchandra Shah who collectively possess more than two decades of experience in the aforementioned business. This has helped the firm maintain long standing relations with customers and suppliers. Further, it caters to around 300 customers including traders and manufacturers spread across the country. RS has tied-up with various manufacturers ensuring stable supply and low lead time for procurement reflected in the inventory days of around 20 maintained by the firm.

#### Diversified product portfolio, customer profile and end user application

RS trades in products used in the manufacture of flexible slab stock foam, thermoware, refrigerator, construction components, panels, paints and the coating industry. Due to diverse application of its products, the firm is insulated from demand variation in any single product or industry. The firm also has a diversified customer base with top 10 customers contributing 28 percent of the total sales for FY2017. Further, the firm reported growth of around 23 percent in FY2017. The operating income stood at Rs. 287.55 crore for FY2017 as against Rs. 235.86 crore in the previous year.

## Above average financial risk profile

The financial risk profile is above average marked by tangible networth of Rs. 59.38 crore as on 31 March, 2017 as against Rs. 31.64 crore in the previous year. The increase in networth is mainly on account of retention of profits and substantial infusion of partner's capital during FY2016-17.

The debt-to-equity ratio is comfortable at 0.06 times as on 31 March, 2017 as against 0.62 times in the previous year. The total debt of Rs. 3.85 crore as on 31 March, 2017 includes only unsecured loan from promoters. The Interest Coverage ratio stood at 6.95 times for FY2017 as against 2.06 times in the previous year. The improvement in coverage ratio is on account of significant improvement in the profitability and decline in the interest outgo in FY2017 compared to the previous year. The Total outside Liabilities to Tangible Networth stood at 1.26 times as on 31 March, 2017 as against 2.19 times in the previous year.

SMERA believes that going forward the firm will maintain its financial risk profile on account of funding support from partners and moderate working capital requirement.

### **Weaknesses:**

#### **Susceptibility of margins to volatility in commodity prices and foreign exchange rates**

The raw material cost constituted around 92 percent of total sales in 2017 as against around 97 percent in the previous year. The prices of commodities i.e. chemical fluctuate are highly dependent on the demand and supply scenario in the global market. Further, the firm maintains inventory based on demand from clients and is not backed by approved orders leaving the firm to inventory price risk. The firm imports around 56 percent of its requirements from Japan, Europe, USA and Asia. Hence, the margins are exposed to volatility in foreign exchange rates in the absence of adequate hedging mechanism.

### **Working capital intensive business**

The operating cycle of the firm is elongated reflected in the high Gross Current Assets days (GCA) of 141 days for FY2017 as against 139 days in the previous year. This is due to the stretched debtor days of around 105 days for FY2017 as against 102 days in the previous year. Also, the other current assets are high, leading to high working capital requirements. This elongation in the operating cycle is supported by timely infusion of capital from partners and unsecured loan from promoters. However, the liquidity position of the firm is comfortable with average cash credit limit utilisation of around 41 percent for the last six months ended as on 30 January, 2018.

### **Partnership constitution**

The credit risk profile factors in the partnership constitution of the firm. There is an inherent risk of withdrawal of capital which limits its financial flexibility in turn increasing the vulnerability of the capitalisation and coverage metrics.

### Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Royal Synthetics for arriving at the rating.

### Outlook: Stable

SMERA believes that RS will maintain a 'Stable' outlook over the medium term owing to its extensive experience of the management in the chemical industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue while achieving improvement in profitability and effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position.

### Applicable Criteria

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

### About the Rated Entity -Key Financials

Particulars	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	287.55	235.86	273.18
EBITDA	Rs. Cr.	16.11	5.91	5.80
PAT	Rs. Cr.	9.32	2.24	2.06
EBITDA Margin	(%)	5.60	2.50	2.12
PAT Margin	(%)	3.24	0.95	0.75
ROCE	(%)	29.72	13.76	28.52
Total Debt/Tangible Net Worth	Times	0.06	0.62	1.03
PBDIT/Interest	Times	6.95	2.06	1.89
Total Debt/PBDIT	Times	0.22	2.81	3.48
Gross Current Assets (Days)	Days	141	139	117

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:** 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	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BBB/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	84.41	SMERA A3+
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.69	SMERA A3+

**Note on complexity levels of the rated instrument:**

<https://www.smerra.in/criteria-complexity-levels.htm>

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