

Press Release

Gem Aromatics Private Limited

10 April, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	SMERA BBB/ Outlook: Stable
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned the 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. 50.00 crore bank facilities of Gem Aromatics Private Limited. The outlook is '**Stable**'.

The Mumbai based, Gem Aromatics Private Limited (GAPL) was incorporated in 1997. The company, promoted by Mr. Vipul Parekh, Mrs. Kaksha Parekh and Mr. Yash Parekh, is engaged in the manufacture of essential oils and aroma chemicals (mint, clove, eucalyptus, anethol, patchouli among others). The company has two manufacturing units at Silvassa and Badaun with combined capacity of 2400 MTPA.

Key rating drivers

Strengths

Established track record of operations and experienced management

GAPL was incorporated in 1997. The Directors, Mr. Vipul Parekh and Mrs. Kaksha Parekh have over three decades of experience in the industry and are well supported by a second line of management.

The company backed by its experienced promoters has developed healthy relations with leading FMCG and global players in the industry.

Improving revenue trend in FY2018

GAPL registered gross revenue of Rs.142.12 crore from April 2017 to January 2018 as against Rs.85.43 crore in FY2017. The increase in revenue was mainly on account of increase in capacity of the new plant in Badaun (Uttar Pradesh). Moreover, GAPL has unexecuted order book of ~Rs.60.28 crore which provides revenue visibility in the near term

Moderate financial risk profile

GAPL has moderate financial risk profile marked by tangible net worth of Rs. 14.82 crore as on 31 March, 2017 as against Rs. 11.98 crore as on 31 March, 2016. It includes unsecured loan of Rs. 6.50 crore as on 31 March, 2017 which is considered as quasi equity. The adjusted gearing

stood high at 2.37 times as on 31 March, 2017 which improved from 2.49 times as on 31 March, 2016. The debt of Rs. 35.12 crore mainly consists of term loans of Rs. 3.62 crore and working capital borrowings of Rs. 30.09 crore as on 31 March 2017. Interest Coverage Ratio (ICR) stood at 1.92 times for FY 2017 as against 1.81 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 1.40 times for FY 2017 as against 1.23 times in FY2016. Going forward, SMERA expects company to maintain its financial risk profile in absence of major debt funded capex plans in near term.

Weaknesses

Working capital intensive operations

GAPL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 200 days in FY2017 compared to 158 days in FY2016. The GCA days are mainly dominated by high inventory days of 96 days in FY2017 compared to 56 days in FY2016. The average cash credit utilization for the past six months stood at ~92 percent. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Profitability susceptible to volatility in raw material prices and foreign exchange fluctuation risk

GAPL's operating profitability is susceptible to volatility in raw material prices of clove, eucalyptus and mint which are procured locally and also imported from China, Indonesia to name a few. The company also exports its produce to USA, thereby exposing itself to foreign exchange fluctuation risk in the absence of adequate hedging mechanism. However the same is mitigated to an extent as the imports and the funding by way of PCFC/PSC which acts as a natural hedge.

Competitive industry

GAPL operates in a highly competitive industry characterized by large number of unorganized players affecting margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of GAPL to arrive at the rating.

Outlook – Stable

SMERA believes that GAPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	77.88	79.59	74.57
EBITDA	Rs. Cr.	7.42	4.68	4.59

PAT	Rs. Cr.	1.31	1.30	0.84
EBITDA Margin	(%)	9.53	5.88	6.15
PAT Margin	(%)	1.68	1.63	1.13
ROCE	(%)	12.79	11.33	18.09
Total Debt/Tangible Net Worth	Times	2.37	2.49	4.33
PBDIT/Interest	Times	1.92	1.81	1.80
Total Debt/PBDIT	Times	4.73	5.59	7.74
Gross Current Assets (Days)	Days	200	158	130

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto 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	17.00	SMERA BBB/Stable
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.82	SMERA BBB/Stable
Term Loans	Not Applicable	Not Applicable	Not Applicable	2.33	SMERA BBB/Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	17.00	SMERA BBB/Stable
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BBB/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3+
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	5.35	SMERA BBB/Stable

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ABOUT SMERA

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