

Press Release

Gem Aromatics Private Limited

July 05, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 54.65 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB+**' (**read as ACUITE triple B plus**) from '**ACUITE BBB/Stable**' (**read as ACUITE triple B**) and short term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 54.65 crore bank facilities of GEM AROMATICS PRIVATE LIMITED (GAPL). The outlook is '**Stable**'.

The upgrade is in view of significant growth in revenues along with profitability margins of the company. The operating income of the company have improved to Rs.256.28 crore in FY2019 (Provisional) from Rs.164.83 crore in FY2018 on account of stabilization of operations of the manufacturing unit in Badaun U.P. Acuité believes going ahead the company will sustain the growth in revenues and profitability margins over the medium term.

Gem Aromatics Private Limited (GAPL) was incorporated by Mr. Vipul Nathalal Parekh, Mrs. Kaksha Parekh and Mr. Yash Parekh in 1995. The company is engaged in manufacturing of essential oils and Aromatic chemicals like, Clove, Mint, Eucalyptus, Anethole and their derivatives like, Iso Eugonol, Cis 3 Hexenol. The manufactured product portfolio caters to range of industries such as, oral care, Pharmaceuticals and wellness. GAPL has two manufacturing units located at Silvassa and Badaun, U.P.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and experienced management**

GAPL has established track record of over two decades in manufacturing of essential oils. 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 comprising Mr. Yash Parekh. GAPL has established market for its products in international as well as domestic market. The company derives more than 42 percent of its revenue from exports to countries like, Japan, USA, and Europe. GAPL has strong and reputed clientele which are leading players in flavor and fragrance industry. GAPL's longstanding relationship with customers and suppliers aids the company in securing repeat orders on a regular basis and ensure continuous flow of raw materials at competitive price. Acuité believes that GAPL will continue to benefit from their established presence in the industry and its improving its business risk profile over the medium term.

- **Improving business risk profile**

The operating income of the company has improved to Rs.256.28 crore in FY2019 (Provisional) from Rs.164.83 crore in FY2018. The company is growing at compounded annual growth rate (CAGR) of 48 percent since FY2016. The improvement is on back of expansion in business by stabilization of operations of the manufacturing unit in Badaun U.P. The operating and PAT margins of the company have also improved to 9.60 percent and 4.60 percent in FY2019 (Provisional) as compared to 7.54

percent and 1.81 percent in FY2018. The margins have improved on account of increase in share of higher margin products in total revenue.

- **Moderate financial risk profile**

GAPL has moderate financial risk profile marked by tangible net worth of Rs.30.00 crore as on 31 March 2019 (Provisional). This includes unsecured loan of Rs.6.00 crore as on 31 March 2019 (Provisional) which is considered as quasi equity. The adjusted gearing stood at 1.92 times as on 31 March 2019 (Provisional) as against 2.35 times as on 31 March 2018. The debt of Rs.57.47 crore as on 31 March 2019 (Provisional) consists of working capital borrowings of Rs.47.00 crore, term loans of Rs.8.81 crore and Rs.1.65 crore of unsecured loans from directors and other companies. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) of 4.85 times in FY2019 (Provisional) as against 2.41 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.68 times as on 31 March 2019 (Provisional) as compared to 3.70 times as on 31 March 2018. Net cash Accruals/Total Debt stands at 0.24 times in FY2019 (Provisional) as against 0.10 times in FY2018.

Acuité believes that the financial risk profile of GAPL will continue to improve over the medium term on account of its improving scale of operations.

Weaknesses

- **Moderate working capital requirements**

GAPL has moderate working capital operations marked by Gross Current Assets (GCA) days of 124 in FY2019 (Provisional) improved from 175 days in FY2018. This is majorly due to the inventory holding period of 76 days in FY2019 (Provisional). The company mainly keeps inventory of raw material and work-in-progress. The average utilization of working capital limits is ~90 percent for the past six months through May 2019.

Acuité 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 Europe Indonesia to name a few. The company also exports around 42 percent 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.

Liquidity position:

Liquidity is marked by strong accruals to the tune of Rs.13.86 crore (Provisional) against repayment obligations to the tune of Rs.2.66 crore. The current ratio of the company stood 1.27 times and gross current asset days stood at 125 days in FY2019 (Provisional). The company had unencumbered cash and bank balances of Rs.0.89 crore as on March 31, 2019 (Provisional). The company reliance on working capital borrowings is high; the cash credit limit in the company remains utilized at ~90 percent during the last six months period ended May 2019. The cash accruals of GAPL are estimated to remain adequate during FY2020 to 2022 in the range of Rs.16.41 crore to 20.60 crore.

Acuité believes that the liquidity of the company is likely to remain strong over the near to medium term on account of healthy order book position of Rs.150.00 crore as on May, 2019, cash accruals and no major repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook of GAPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	256.28	164.83	77.88
EBITDA	Rs. Cr.	24.61	12.43	7.42
PAT	Rs. Cr.	11.80	2.98	1.31
EBITDA Margin	(%)	9.60	7.54	9.53
PAT Margin	(%)	4.60	1.81	1.68
ROCE	(%)	28.59	18.24	12.79
Total Debt/Tangible Net Worth	Times	1.92	2.35	2.37
PBDIT/Interest	Times	4.85	2.41	1.92
Total Debt/PBDIT	Times	2.33	3.76	4.73
Gross Current Assets (Days)	Days	124	175	200

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
04-Jun-2018	Cash Credit	Long Term	INR 22	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 3.82	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 2.33	ACUITE BBB / Stable (Reaffirmed)
	Secured Overdraft	Long Term	INR 22	ACUITE BBB / Stable (Reaffirmed)
	Term Loan	Long Term	INR 3.5	ACUITE BBB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 1	ACUITE A3+ (Reaffirmed)
10-Apr-2018	Cash Credit	Long Term	INR 17	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	INR 3.82	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	INR 2.33	ACUITE BBB / Stable (Assigned)
	Secured Overdraft	Long Term	INR 17	ACUITE BBB / Stable (Assigned)
	Term Loan	Long Term	INR 3.5	ACUITE BBB / Stable (Assigned)
	Bank Guarantee	Short Term	INR 1	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	INR 5.35	ACUITE BBB / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.82	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.33	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Upgraded from ACUITE A3+)

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About Acuité Ratings & Research:

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