

Press Release

Gem Aromatics Private Limited

September 18, 2020

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-** (read as **ACUITE A minus**)' from '**ACUITE BBB+** (read as **ACUITE triple B plus**)' and the short-term rating to '**ACUITE A2+** (read as **ACUITE A two plus**)' from '**ACUITE A2** (read as **ACUITE A two**)' on the Rs.54.65 Cr bank facilities of Gem Aromatics Private Limited (GAPL). The outlook is '**Stable**'.

The upgrade revision in the rating is on the account of the significant improvement in financial risk profile marked by gearing of 0.58 times as on 31 March 2020 (Provisional) as against 2.42 times as on 31 March 2019 and healthy debt protection matrices marked by Interest Coverage Ratio (ICR) of 9.12 times for FY2020 (Provisional). This improvement is mainly due to strategic investment in terms of equity. Further, the upgrade also draws comfort from growth in profitability margins, both at operating and net levels in FY2020 (Provisional) over FY2019.

About the Company

Gem Aromatics Private Limited (GAPL) was incorporated by Mr. Vipul Parekh, Mrs. Kaksha Parekh in 1997. 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 a range of industries such as oral care, Pharmaceuticals and wellness. GAPL has two manufacturing units located at Silvassa, Dadra & Nagar Haveli and Badaun, Uttar Pradesh.

Analytical Approach

To arrive at the rating, Acuite has considered the standalone business and financial risk profile of GAPL.

Key Rating Drivers

Strengths

• Experienced promoters with an established presence in flavor and fragrance industry

GAPL was established in 1997 by Mr. Vipul Parekh and Mrs. Kaksha Parekh, who possesses experience of over two decades in flavor and fragrance industry. The promoters are very well supported by their son, Mr. Yash Parekh who joined the business in 2010 and has helped in developing the presence in international markets, as a result of which the exports of the company have improved. The extensive experience of the promoters has helped GAPL to establish a strong market position in Indian as well as International market. GAPL exports to countries like USA, China, Europe, among others.

The operating income of the company stands at Rs.256.99 crore in FY2020 (Provisional) as against Rs.255.52 crore in FY2019 and Rs.164.83 crore in FY2018. The company is growing at compounded annual growth rate (CAGR) of 25% percent since FY2018. The operating and PAT margins of the company have also improved to 12.25 percent and 7.08 percent in FY2020 (Provisional) as compared to 10.67 percent and 4.74 percent in FY2019. This improvement is on account of selling high margin products like, Iso Eugonol, Cis 3 Hexenol.

Acuite believes that the GAPL promoter's experience and established market presence in the flavor and fragrance industry to support its business risk profile over near to medium term.

• **Healthy financial risk profile**

GAPL's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The tangible net worth of GAPL is healthy at around Rs.87.75 crore as on 31 March, 2020 (Provisional) as against Rs.25.93 crore as on 31 March, 2019. The net worth levels have seen significant improvement over the last three years through FY2020 on account of strategic equity and healthy accretion to reserves.

GAPL has followed moderately aggressive financial policy in the past; the same is reflected through its peak gearing in the past around 3.94 times as on 31 March, 2018, and improved significantly to 0.58 times as on March 31, 2020 (Provisional). The debt of Rs.50.73 crore as on 31 March, 2020 (Provisional), consists of working capital borrowings of Rs.50.07 crore and term loans of Rs.0.66 crore. Apart from the routine capex in the range of Rs.3-6 crore, the company does not have any plans for debt-funded capex.

The debt protection metrics have also seen remarkable improvement marked by Interest Coverage Ratio (ICR) of 9.12 times in FY2020 (Provisional) as against 3.52 times in FY2019. Debt Service Coverage Ratio (DSCR) improved to 3.49 times for FY2020 (Provisional) as against 2.10 times for FY2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) also improved 0.75 times as on 31 March, 2020 (Provisional) as compared to 2.84 times as on 31 March, 2019. Net cash Accruals/Total Debt (NCA/TD) stands at 0.38 times in FY2020 (Provisional) as against 0.23 times in FY2019.

Acuite believes that the company to maintain its financial risk profile over the medium term supported by long term strategic equity investment and in the absence of significant debt-funded capital expenditure plan.

Weaknesses

• **Working capital intensive operations**

GAPL has intensive working capital of operations marked by Gross Current Assets (GCA) days of 179 in FY2020 (Provisional) as against 115 days in FY2019. This is majorly due to the inventory holding period and debtors days of 106 and 62 for FY2020 (Provisional) as against 77 and 22 days for FY2019. The company has long term contracts with multinationals customers for which inventory needs to be maintained. The increment reflected in debtor and inventory was mainly on account of COVID-19 period during March, 2020. However, the average utilization of working capital limits is ~63% for the past eight months through March, 2020.

Acuite believes that GAPL's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

• **Profitability susceptible to volatility in input price, foreign exchange fluctuation risk and agro-climatic risk**

GAPL's operating profitability is susceptible to volatility in raw material prices of clove, eucalyptus and mint which are procured locally (~82%) and also imported (~18%) from Europe Indonesia to name a few. The company also exports around 56 percent thereby exposing itself to foreign exchange fluctuation risk. However, the same is mitigated to an extent as the company works on a policy of forward contracts and almost 100% of contracts are on forward booking. The company is exposed to agro-climatic risk, as it is dealing with products such as peppermint, eucalyptus, among others.

Liquidity position: Adequate

Liquidity is marked by healthy accruals to the tune of Rs.19.18 crore in FY2020 (Provisional) against repayment obligations to the tune of Rs.3.58 crore. The current ratio of the company stood 1.99 times and gross current asset days stood at 179 days in FY2020 (Provisional). The company maintains unencumbered cash and bank balances of Rs.3.87 crore as on March 31, 2020 (Provisional). The reliance on working capital borrowings is moderate; the cash credit limit in the company remains utilized at ~63 percent during the last eight months period ended March, 2020. The cash accruals of GAPL are estimated to remain adequate during FY2021 to 2023 in the range of Rs.20-28 crore against the repayment of around Rs.0.30 for FY2021. Acuite 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.208.00 crore as on July, 2020, cash accruals and no major repayments over the medium term.

Rating Sensitivity

- Elongation in the working capital cycle
- Improvement in operating performance while maintaining profitability margins

Material covenants

None

Outlook: Stable

Acuite believes that GAPL will maintain a 'Stable' outlook over the medium term on account of promoter's experience in the industry and a healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers a healthy growth in revenues while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or deterioration of financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	256.99	255.52
PAT	Rs. Cr.	18.20	12.12
PAT Margin	(%)	7.08	4.74
Total Debt/Tangible Net Worth	Times	0.58	2.42
PBDIT/Interest	Times	9.12	3.52

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jul-2019	Cash Credit	Long Term	22.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
	Term Loan	Long Term	3.82	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
	Term Loan	Long Term	2.33	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
	Secured Overdraft	Long Term	22.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
	Term Loan	Long Term	3.50	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/ Stable)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
04-Jun-2018	Cash Credit	Long term	22.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long term	3.82	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long term	2.33	ACUITE BBB/ Stable (Reaffirmed)
	Secured Overdraft	Long term	22.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long term	3.50	ACUITE BBB/ Stable (Reaffirmed)

	Bank Guarantee	Short term	1.00	ACUITE A3+ (Reaffirmed)
10-Apr-2018	Cash Credit	Long Term	17.00	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	3.82	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	2.33	ACUITE BBB/ Stable (Assigned)
	Secured Overdraft	Long Term	17.00	ACUITE BBB/ Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	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 A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	3.82	ACUITE A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	2.33	ACUITE A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Term Loan	Not Available	Not Applicable	Not Available	3.50	ACUITE A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ (Upgraded from ACUITE A2)

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About Acuite Ratings & Research:

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