

Press Release

Gem Aromatics Private Limited

December 23, 2021



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.00		ACUITE A2+ Reaffirmed
Bank Loan Ratings	68.65	ACUITE A- Stable Reaffirmed	
Total	94.65	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of 'ACUITE A-' (read as ACUITE A minus) and the short-term rating of 'ACUITE A2+' (read as ACUITE A two plus) on the Rs.94.65 crore bank facilities of Gem Aromatics Private Limited (GAPL). The outlook is 'Stable'.

Rationale for Rating Reaffirmation

The rating takes into account vast experience of the management, YoY growth in revenues, established track record of operations and optimum working capital management. Company had raised an Equity in the previous year through a strategic investor which lead company in pre closure of certain loans, helping debt protection metrics to achieve improvements, marked by Interest Coverage Ratio (ICR) of 16.81 times in FY2021 as against 9.87 times in FY2020.

About the Company

GAPL incorporated in 1997 and promoted by Mr. Vipul Parekh & Mrs. Kaksha Parekh, is engaged into manufacturing of Essential oils and Aroma chemicals (primarily Mint & its derivatives, Clove & its derivatives, Eucalyptus, and Anethol, etc). The company has manufacturing units at Silvassa in Dadra Nagar Haveli, and Badaun in Uttar Pradesh with combined capacity of 3200 - 3600 MTPA. The products manufactured by GAPL find application in diverse segments like oral care, flavour and fragrance formulation houses, cosmetic manufacturers, food and beverages, incense sticks manufacturers, pharmaceutical, wellness and Nutraceuticals, within India & worldwide

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record, experienced management and reputed clientele

The legacy of GAPL dates back to year 1915 when promoter's forefathers were engaged in the business of imports of chemicals for various FMCG and pharmaceutical industries. Later, GAPL was established in 1997 by Mr. Vipul Parekh and Mrs. Kaksha Parekh, who possess 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, leading to higher export orders. The

extensive experience of the promoters has helped GAPL to establish a strong market position

in Indian as well as international market. The operating income of the company stood at Rs.319.88 crore in FY2021 as against Rs.256.96 crore in FY2020 and Rs.255.52 crore in FY2019. The operating and PAT margins of the company have remained stable at 11.07 percent and

7.35 percent in FY2021 as compared to 12.19 percent and 7.03 percent in FY2020.

Acuité 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 stood at around Rs.111.21 crore as on 31 March, 2021 as against Rs.87.69 crore as on 31 March, 2020. The net worth levels have seen a significant improvement over the last three years through FY2020 on account of equity infusion by the strategic investor. GAPL has followed conservative gearing policy. Although its peak gearing in the past stood at 2.42 times as on 31 March, 2019 the same has improved significantly to 0.50 times as on March 31, 2021 post the infusion of equity by GAPL's strategic partner. The debt of Rs.55.40 crore as on 31 March, 2021, consists of working capital borrowings of Rs.55.10 crore and other loans of Rs.0.30 crore. Further, GAPL incurs routine capex in the range of Rs.3-6 crore. The debt protection metrics have also seen improvement due to pre closure of certain loans in FY2020, marked by Interest Coverage Ratio (ICR) of 16.81 times in FY2021 as against 9.87 times in FY2020. Debt Service Coverage Ratio (DSCR) improved to 12.86 times for FY2021 as against 3.56 times for FY2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) also improved 0.68 times as on 31 March, 2021 as compared to 0.76 times as on 31 March, 2020. Net cash Accruals/Total Debt stands at 0.54 times in FY2021 as against 0.42 times in FY2020.

Acuité expects GAPL's financial risk profile to remain stable over the medium term in the absence of any significant debt funded capex

Weaknesses

Moderate working capital requirements

GAPL has working capital intensive operations marked by Gross Current Assets (GCA) days of 182 in FY2021 as against 179 days in FY2020. This is majorly due to high inventory holding period and debtors days which stood at 88 and 81 in FY2021 as against 106 & 62 days in FY2020. The increase in debtor days is primarily on account of sluggish demand in the US market affecting payment from a major FMCG customer. The working capital intensive nature of operations has increased the reliance on bank limits for funding its working capital requirement, primarily during the first quarter. The average utilization of working capital limits is ~85 percent during the past seven months through this is the latest available, 2021.

Acuité believes that GAPL's ability to restrict further elongation of working capital cycle will remain a key rating monitorable.

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 its produce to USA, thereby exposing itself to foreign exchange fluctuation risk in turn risking the current operating margin levels 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.

Rating Sensitivities

- Further elongation in the working capital cycle
- Improvement in operating performance while maintaining profitability

Material covenants

None

Liquidity Position: Adequate

The company generated cash accruals of Rs. 26.80 crore for FY2021 as against just Rs.0.30 crore of repayment obligations for the same period. Going forward the company is expected to generate net cash accruals in the range of Rs.28.00-Rs.30.00 crore as against almost no repayment obligations.. The group maintained unencumbered cash and bank balances of Rs.5.60 crore as on 31 March 2021. Further, average utilization of the cash credit in the last seven months as on October 21, stood at 85 percent. Company has availed ad-hoc bank facilities during peak seasons of first two quarters of FY2022.

Acuité believes GAPL will maintain an adequate liquidity profile marked by adequate net cash accruals to its maturing debt obligations constrained to some extent by working capital intensive nature of operations and low unutilized bank limit utilized.

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 further debt funded capital expenditure resulting in deterioration of its financial risk profile of the company, particularly its liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	319.88	256.96
PAT	Rs. Cr.	23.52	18.07
PAT Margin	(%)	7.35	7.03
Total Debt/Tangible Net Worth	Times	0.50	0.57
PBDIT/Interest	Times	16.81	9.87

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Oct 2020	Proposed Bank Facility	Long Term	0.65	ACUITE A- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	12.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
	Bills Discounting	Short Term	13.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	0.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	0.00	ACUITE A- (Withdrawn)
	Packing Credit	Long Term	12.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.00	ACUITE A- (Withdrawn)
18 Sep 2020	Secured Overdraft	Long Term	32.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	22.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	3.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	3.82	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
05 Jul 2019	Term Loan	Long Term	2.33	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Secured Overdraft	Long Term	22.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	3.82	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	2.33	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	22.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
04 Jun 2018	Term Loan	Long Term	3.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Term Loan	Long Term	2.33	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE BBB Stable (Reaffirmed)
	Secured Overdraft	Long Term	22.00	ACUITE BBB Stable (Reaffirmed)

	Bank Guarantee	Term	1.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	3.82	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	3.50	ACUITE BBB Stable (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Quantum (Rs. Cr.)	Rating
Standard Chartered Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	1.00	ACUITE A2+ Reaffirmed
CITI Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	25.00	25.00	ACUITE A2+ Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	2.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.00	22.00	ACUITE A- Stable Reaffirmed
Standard Chartered Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	20.00	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	12.00	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.65	0.65	ACUITE A- Stable Reaffirmed
DBS Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	12.00	12.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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