

Press Release

Gem Aromatics Private Limited

March 24, 2023



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	68.65	ACUITE A Stable Upgraded	-
Bank Loan Ratings	26.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	94.65	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A (read as ACUITE A)**' from '**ACUITE A-' (read as ACUITE A minus)**' and short-term rating to '**ACUITE A1' (read as ACUITE one)**' from '**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 upgrade

The rating upgrade factors the sustained improvement in operating and financial performance of GAPL over the last three years. The revenue of the company improved at an compounded annual growth rate (CAGR) of 10%. Further, the company has already achieved revenue of Rs. 354.99 crore for 11MFY2023 and is expected to close the year at above Rs. 400 crore. The operating margin of the company improved to 16.65% in FY2022 as against 11.06% in FY2021 on account of focus on high margin value added products and better raw material pricing. The financial risk profile of the company continues to remain healthy marked by healthy net worth, low gearing, and healthy debt protection metrics. GAPL is planning a project of setting up new facility at Dahej under its wholly owned subsidiary, Krystal Ingredients Private Limited and the project cost is expected to be Rs. 70.00 crore. However, timely completion of the capex without cost overruns will remain a key rating monitorable. Acuite believes that despite the debt funded capex, the financial risk profile of the company is expected to remain healthy on account of healthy net worth and improvement in operations leading to accretion to reserves. Going forward, the company's ability to maintain the improvement in the operating performance and to restrict further elongation of working capital cycle will remain a key rating monitorable.

About the Company

Gem Aromatics Private Limited (GAPL) was incorporated in 1997 and promoted by Mr. Vipul Parekh & Mrs. Kaksha Parekh. It is engaged into manufacturing of Essential oils and Aroma chemicals (namely Mint & its derivatives, Clove & its derivatives, Eucalyptus, Anethol, and Patchouli etc). The customers of the company are from diversified industries which includes oral care industries, flavour and fragrance formulation houses, cosmetic manufacturers, food and beverages industries, incense sticks manufacturers, pharmaceutical, wellness & nutraceutical industries within India and 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.

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

Healthy Financial Risk Profile

The financial risk profile of the company is healthy marked by moderate net worth, comfortable coverage ratios and low gearing ratio. The company's net worth increased to Rs.148.03 crore as on March 31, 2022 as against Rs.110.83 crore as on March 31, 2021. The company's leverage policy is supported by the healthy tangible net-worth levels, reflected through its peak gearing and Total Outside Liabilities to Tangible Net-worth (TOL/TNW) which stood at 0.67 times as on FY2022 vis-à-vis 0.68 times as on FY2021. The gearing level remained low at 0.52 times as on March 31, 2022 as against 0.50 times as on March 31, 2021. Further, the interest coverage ratio improved to 18.61 times for FY2022 as against 16.80 in FY2021. The debt to ebitda ratio stood at 1.34 times for FY2022 as against 1.56 times in FY2021.

GAPL is planning a project of setting up new facility at Dahej under its wholly owned subsidiary, Krystal Ingredients Private Limited. The project cost is expected to be Rs 70 crore out of which Rs 47 crore is to be funded using term loans and the remaining through promoter's contribution. Out of the above project cost, Rs 9.34 crore has been incurred so far which has been funded through internal accruals of Gem Aromatics Private Limited (GAPL). The balance amount required in the form of promoter's contribution are expected to met through internal accruals of GAPL.

Acuité expects GAPL's financial risk profile to remain stable over the medium term. However, timely completion of the capex without cost overruns will remain a key rating monitorable.

Weaknesses

Working Capital Intensive Nature of operations

The operations of the company are of working capital intensive nature marked by high GCA days of 225 days for FY2022 as against 182 days for FY2021. The high GCA days are on account of high inventory levels of 113 days for FY2022 compared against 88 days for FY2021. The debtor days are moderate and stood at 106 days for FY2022 against 81 days for FY2021. The debtor days as on year end are generally higher, due to relatively higher sales in in the last quarter of the year. The creditor days of the company stood at 20 days for FY2022 as against 21 days for FY2021. The working capital intensive nature of operations has led to the reliance on bank limits for funding its working capital requirement and the average utilisation of the

working capital limits remained on the higher side at 84.69% for last ten months ended on October 2022. The bank limit utilisation is higher during the first half of the year as it is the procurement period of raw materials.

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. However, the same is mitigated to an extent because of equivalent imports against exports which acts as a natural hedge. Also, the company has hedging mechanism and does not keep any of its position open.

Rating Sensitivities

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

Material covenants

None

Liquidity Position

Adequate

GAPL has an adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 41.08 crore for FY2022 as against just Rs.0.30 crore of repayment obligations. Going forward the company is expected to generate net cash accruals in the range of Rs.48.00-Rs.53.00 crore as against negligible debt repayment obligations. The group maintained unencumbered cash and bank balances of Rs.3.96 crore as on 31 March 2022. The average utilisation of the working capital limits remained on the higher side at 84.69% for last ten months ended on October 2022. The bank limit utilisation is higher during the first half of the year as it is the procurement period of raw materials. Acuite believes the liquidity position to remain adequate on account of healthy net cash accruals against negligible repayment obligations

Outlook: Stable

Acuité believes that the outlook of GAPL will remain 'Stable' over the medium term backed by 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	339.34	319.85
PAT	Rs. Cr.	37.19	23.50
PAT Margin	(%)	10.96	7.35
Total Debt/Tangible Net Worth	Times	0.52	0.50
PBDIT/Interest	Times	18.61	16.80

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Feb 2023	Proposed Bank Facility	Long Term	0.65	ACUITE A- Stable (Reaffirmed)
	Bills Discounting	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	12.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Packing Credit	Long Term	12.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Reaffirmed)
	Bills Discounting	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
	Working Capital Term Loan	Long Term	12.00	ACUITE A- Stable (Reaffirmed)

23 Dec 2021	Cash Credit	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.65	ACUITE A- Stable (Reaffirmed)
	Packing Credit	Long Term	12.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE A- Stable (Reaffirmed)
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)
		Long		
	Secured Overdraft	Term	32.00	ACUITE A- Stable (Reaffirmed)
18 Sep 2020	Term Loan	Long Term	2.33	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Standard Chartered Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A1 Upgraded (from ACUITE A2+)
CITI Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Upgraded (from ACUITE A2+)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A Stable Upgraded (from ACUITE A-)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A Stable Upgraded (from ACUITE A-)
Axis Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A Stable Upgraded (from ACUITE A-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.65	ACUITE A Stable Upgraded (from ACUITE A-)
Standard Chartered Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A Stable Upgraded (from ACUITE A-)
DBS Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	12.00	ACUITE A Stable Upgraded (from ACUITE A-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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