

## Press Release

### Chemi Enterprises LLP

08 May, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 23.00 Crore
<b>Long Term Rating</b>	SMERA BB+/Stable (Assigned)
<b>Short Term Rating</b>	SMERA A4+ (Assigned)

*\*Refer Annexure for details*

### Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.23.00 crore bank facilities of Chemi Enterprises LLP (CEL). The outlook is '**Stable**'.

CEL was established as limited liability partnership firm in 2016 to take over the running business of Chemi Enterprises (CE), a proprietorship concern established in 1983 by Mr. Bipin Joshi. CELL is engaged in trading of chemicals which finds application in industries including paints, plastic, rubber, pharmaceuticals and construction among others. Presently, the day to day operations of CEL is handled by Mr. Bipin Joshi and his son, Mr. Vikas Joshi. The firm procures around 90 percent of its raw material from the overseas market including China and Europe while remaining 10 percent is procured from domestic suppliers. The firm caters directly to end-users in the domestic market.

### Key rating drivers

#### Strengths:

#### **Established track record and experienced management**

The firm has operational track record of more three decades in the chemical trading business. The firm supplies wide range of chemicals to domestic customers belonging to industries including paints, plastic, rubber, construction to name a few. The firm benefits from the extensive experience of its promoter i.e. Mr. Bipin Joshi who possess vast experience in the chemical trading industry. CELL has been continuously expanding its product range as well as customer base during the last four years with resultant growth in revenues.

Going forward, SMERA expects the firm to maintain its business risk profile on account of established position and experienced management.

#### **Comfortable financial risk profile**

The financial risk profile is comfortable marked by tangible network of Rs.13.89 crore as on 31 March, 2017 as against Rs.12.20 crore in the previous year. For arriving at the tangible network, the unsecured loan of Rs.7.84 crore has been considered as quasi-equity as the same is subordinated to bank debt. The adjusted debt to equity is comfortable at 0.31 times as on 31 March, 2017 as against 0.43 times in the previous year. The total debt of Rs.4.27 crore as on 31 March, 2017 includes only short term borrowings. The Interest Coverage Ratio stood at 2.29 times for FY2017 as against 2.21 times in the previous year.

Going forward, SMERA expects the firm to maintain its financial risk profile on account of expected improvement in the net cash accruals and moderate working capital requirement.

### Weaknesses:

#### Susceptibility of margins to volatility in commodity prices and foreign exchange rates

The operating margin has declined from 7.37 percent in FY2016 to 6.32 percent in FY2017 inspite of reduction in the raw material cost which constitutes around 83 percent of the total sales for FY2017 as against ~88 percent in the previous year. The decline in margin is on account of high amount of partner's remuneration paid during FY2017 as compared to previous year.

Nonetheless, the profitability of the firm is exposed to fluctuation in the raw material prices as same constitutes significant portion of the total sales. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. The firm maintains inventory based on demand pattern of its clients in preceding months and it is not backed by orders thus leaving the firm to inventory price risk. The firm imports around 90 percent of its requirements from overseas suppliers in China and Europe. Hence, the margins of the firm are exposed to volatility in foreign exchange rate as the firm undertakes only partial hedging of the total foreign exchange exposure.

#### Working capital intensive nature of business

The working capital operation of the firm is intensive in nature with Gross Current Assets (GCA) of 152 days for FY2017 as against 148 days in the previous year. The inventory levels have stretched from 44 days for FY2016 to 66 days for FY2017. This elongation in the operating cycle is supported by infusion of capital and unsecured loan from partners.

Further, the liquidity position of the firm is comfortable with average cash credit limit utilisation of around 87 percent during the last six months ended as on 31 March, 2018.

### Analytical approach:

SMERA has considered the standalone business and financial risk profile of Chemi Enterprises LLP to arrive at this rating.

### Outlook: Stable

SMERA believes that CELL will maintain a 'Stable' outlook over the medium term owing to the extensive experience of the promoter in the chemical industry. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue and profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position of the firm on account of higher than expected working capital borrowings.

### Applicable Criteria

- Trading Entities – <https://www.smera.in/criteria-trading.htm>
- Default Recognition - <https://www.smera.in/criteria-deafault.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

### About the Rated Entity –Key Financials:

Particulars	Unit	FY17 (Actual)	FY16(Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	59.30	43.59	33.12
EBITDA	Rs. Cr.	3.75	3.21	2.27
PBT	Rs. Cr.	2.13	1.90	1.24
EBITDA Margin	(%)	6.32	7.37	6.87
PBT Margin	(%)	3.60	4.37	3.75
ROCE	(%)	21.40	22.51	36.18
Total Debt/Tangible Net Worth	Times	0.31	0.43	0.45
PBDIT/Interest	Times	2.29	2.21	2.02
Total Debt/PBDIT	Times	1.11	1.46	1.68
Gross Current Assets (Days)	Days	152	148	148

**Status of non-cooperation with previous CRA (if applicable):** Not Applicable

**Any other information:** Not Applicable

**Rating History for the 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	8.00^	SMERA BB+/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00@	SMERA A4+

^ Includes one-way interchangeability of Import Letter of credit and Buyer's credit.

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**Note on complexity levels of the rated instrument:**

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

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**ABOUT SMERA**

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