

Press Release

Chemi Enterprises LLP

July 10, 2019

Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed the short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 23.00 crore bank facilities of Chemi Enterprises LLP (CELP). The outlook is 'Stable'.

The downgrade is on account of significant decline in margins, stretch in liquidity profile and continuous decline in net cash accruals of the firm. Further, the debt protection metrics of the firm was significantly impacted marked by significant increase in Debt-EBITDA which stood at 3.50 times for FY2019 (Previous Year: 3.10 times) and deterioration in Interest Coverage Ratio (ICR) to 1.53 times for FY2019 (Provisional) as against 2.26 in the previous year. However, rating continues to derive support from experience of CELP's Partners in the business, moderate capital structure and established relationship with clients.

CELP 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. CELP 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 CELP is handled by Mr. Bipin Joshi and his son, Mr. Vikas Joshi. The firm procures around 80 percent of its raw material from the overseas market including China and Europe, while remaining 20 percent is procured from domestic suppliers. The firm caters directly to end-users in the domestic market.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record and experienced management**

CELP 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 and construction to name a few. The firm benefits from the extensive experience of its promoter i.e. Mr. Bipin Joshi who possesses vast experience in the chemical trading industry. CELP has been continuously expanding its product range as well as customer base during the last five years with resultant growth in revenues. Going forward, Acuite expects the firm to maintain its business risk profile on account of established position and experienced management. The firm is also supported by second line of management.

- Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs. 13.59 crore as on 31 March, 2019 (Provisional) as against Rs.12.29 crore in the previous year. For arriving at the tangible net worth, the unsecured loan of Rs.4.65 crore has been considered as quasi-equity as the same is subordinated to bank debt. The adjusted debt to equity stood comfortable at 0.87 times as on

31 March, 2019 (Provisional) as against 1.22 times in the previous year. The total debt of Rs. 11.78 crore as on 31 March, 2019 (Provisional) includes only short term borrowings. Interest Coverage Ratio stood at 1.53 times for FY2019 (Provisional) as against 2.26 times in the previous year. The TOL/TNW stood moderate at 2.00 times in FY2019 (Provisional) as against 2.15 times in FY2018. Going forward, Acuite 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

- **Decline in margins, susceptibility of margins to volatility in commodity prices and foreign exchange rates**

The operating margin has declined from 5.62 percent in FY2018 to 3.21 percent in FY2019 (Provisional) due to increase in the raw material cost which constitutes around 87.00 percent of the total sales for FY2019 (Provisional) as against ~84.00 percent in the previous year. Further, 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 80.00 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 operations and high competition**

The working capital operation of the firm is intensive in nature with Gross Current Assets (GCA) of 140 days in FY2019 (Provisional) and 155 days in the previous year. The receivable days stood high at 104 days in FY2019 (Provisional) as against 103 days in FY2018. The inventory levels stood at 34 days for FY2019 (Provisional) as against 49 days for FY2018. This elongation in the operating cycle is supported by infusion of capital. Further, the liquidity position of the firm is moderate with average cash credit limit utilisation of around 91.00 percent during the last six months ended April 2019. Further, the firm faces competition from other players in the industry which restricts bargaining power with its customers and have direct impact on the profitability.

Liquidity Position:

The liquidity profile of CELP is marked by average net cash accruals of Rs. 0.82 crore as against no major repayment obligations for FY2019 (Provisional). The net cash accruals of the company are expected to remain in range of Rs.0.85-1.50 crore in FY2020-22. The current ratio stood moderate at 1.50 times and DSCR stood at 1.29 times in FY2019 (Provisional). The operation of the company is marked by moderate gross current asset (GCA) of 140 days in FY2019 (Provisional). The working capital facility utilisation stood at 91.00 percent for last six months ending April 2019. Acuite believes that the liquidity of the company is likely to improve in near to medium term on account of improving revenues and scale of operations.

Outlook: Stable

Acuite believes that CELP 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 further decline in margins, profitability or deterioration in the capital structure and liquidity position of the firm on account of higher than expected working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	99.54	82.88	59.30
EBITDA	Rs. Cr.	3.19	4.66	3.75
PAT	Rs. Cr.	0.66	1.70	2.13
EBITDA Margin	(%)	3.21	5.62	6.32
PAT Margin	(%)	0.67	2.05	3.60
ROCE	(%)	12.19	20.84	21.40
Total Debt/Tangible Net Worth	Times	0.87	1.22	0.70
PBDIT/Interest	Times	1.53	2.26	2.29
Total Debt/PBDIT	Times	3.50	3.10	1.94
Gross Current Assets (Days)	Days	140	155	152

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-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
08-May-2018	Cash Credit	Long Term	8.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (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	8.00*	ACUITE BB / Stable (Downgraded from BB+/Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.00^	ACUITE A4+ (Reaffirmed)

*Cash Credit includes one way interchangeability of Import Letter of credit and Buyer's credit.

^Letter of Credit includes one way interchangeability of Letter of credit and Buyer's credit.

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About Acuité Ratings & Research:

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