

Press Release

Spectra Chemicals

June 14, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 11.00 crore bank facilities of Spectra Chemicals. The outlook is '**Stable**'.

Spectra Chemicals (SC), established in 1978 is a Mumbai-based proprietorship concern promoted by Mr. Mrugesh Gandhi. The firm is engaged in importing and trading of chemicals. The firm imports around 51 percent of its total purchases from Taiwan, South Korea, Vietnam, UAE, Oman, China and Brazil. SC caters mainly to agrochemicals, edible oil, fertilizers, food & beverages and sugar industry amongst others.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoter**

SC has established operational track record of four decades which has helped maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoter, Mr. Mrugesh Gandhi who possess four decades of experience in trading of chemicals.

- **Diversified customer profile and strong sourcing capabilities with long associated suppliers:**

SC's vast customer base with diversified application of the products will act as a partial offset of the demand risk. With four decades of operations, SC has strong association with many suppliers across the products they trade.

Weaknesses

- **Average financial risk profile**

SC has average financial risk profile marked by low net worth of Rs.1.93 crore as on 31 March, 2017 compared to Rs.1.97 crore as on 31 March, 2016. The gearing stood at 0.81 times as on 31 March, 2017 from 0.68 times as on 31 March, 2016. The total debt of Rs.1.57 crore comprises unsecured loans from directors/relatives of Rs.0.40 and working capital funds of Rs.1.17 crore as on 31 March, 2017. The interest coverage ratio stood at 1.22 times in FY2017 as against 1.24 times in FY2016. The total outside liabilities to tangible net worth (TOL/TNW) stood at 3.51 times in FY2017 as against 2.57 times in FY2016.

- **Low profitability margins**

SC reported operating margin of 2.78 percent for FY2017 as against 2.39 percent in the previous year. Further, the net profit margins are thin at 0.35 percent for FY2017 as against 0.33 percent in the previous year, mainly on account of high interest cost on bank borrowings and trading nature of operations.

- **Working capital intensive nature of operations**

The operations of the firm are working capital intensive evident by high gross current asset days (GCA) of 139 in FY2017 as against 102 in FY2016. This is on account of stretched debtor position which stood at 92 days in FY2017 as against 64 days in the previous year. Further, the average cash credit utilisation is 88.90 percent for last six months ended March, 2018.

• **Proprietorship constitution**

The proprietorship constitution of the firm makes it vulnerable to the risk of capital withdrawal.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Spectra Chemicals to arrive at the rating.

Outlook: Stable

Acuité believes that Spectra Chemicals will maintain a 'Stable' outlook on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers strong growth in revenue and profitability margins and improves its financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in the revenue and profit margins or deterioration in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	15.15	15.41	11.10
EBITDA	Rs. Cr.	0.42	0.37	0.36
PAT	Rs. Cr.	0.05	0.05	0.18
EBITDA Margin	(%)	2.78	2.39	3.28
PAT Margin	(%)	0.35	0.33	1.65
ROCE	(%)	12.50	10.20	19.31
Total Debt/Tangible Net Worth	Times	0.81	0.68	0.99
PBDIT/Interest	Times	1.22	1.24	2.05
Total Debt/PBDIT	Times	3.45	3.41	4.85
Gross Current Assets (Days)	Days	139	102	146

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

Not Applicable

***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	1.50	ACUITE B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE A4
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+ / Stable
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE A4

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About Acuité Ratings & Research:

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