

Press Release

Spectra Chemicals

July 24, 2019



Rating Reaffirmed

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 reaffirmed 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 (SC). 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.

Analytical Approach

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

Key Rating Drivers

Strengths

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

SC's proprietor has experience of more than 40 years in chemicals trading, which has helped the firm establish relationships with suppliers and customers. The proprietor's understanding of the industry and market dynamics has helped SC obtain repeat orders from customers and ensure regular supply from suppliers.

- **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 partial offset of demand risk. With four decades of operations, SC has strong association with many suppliers across the product they trade.

- **Moderate working capital policy**

The working capital management is marked by Gross Current Assets (GCA) of 91 days in FY2019 (Provisional) as against 97 days in FY2018. The firm extends clean credit of around 60-90 days to its customers, resulting in moderate GCA days. The inventory and debtor levels stood at 12 days and 64 days in FY2019 (Provisional) as against 7 days and 68 days in FY2018, respectively. As a result, the average utilisation of bank limits stood high at ~85 percent in the last six months. Creditors stood at 93 days as on March 31, 2019 (Provisional). Acuité believes that the working capital requirements will continue to remain moderate over near to medium term.

Weaknesses

- **Modest scale of operations in the highly competitive and fragmented chemicals trading industry**

SC's business risk profile is constrained by small scale of operations, reflected in revenue of Rs. 23.07 crore in FY19 (Provisional), expected to improve to around Rs. 35.00 crore in FY2020, however may further moderate to Rs. 25-30 crore per annum over medium term. Scale of operations remain modest because of intense competition and fragmentation in the chemicals trading industry due to low entry barriers, and the firm's limited value addition.

- **Average financial risk profile**

SC's financial risk profile is marked by low net worth, low gearing and moderate debt protection measures. The net worth increased to Rs. 2.11 crore as on 31 March, 2019 (Provisional) as against Rs.1.86 crore in the previous year on account of increasing revenues leading to higher accretion to reserves. The firm's gearing is estimated to be low at 0.83 times as on 31 March, 2019 (Provisional) as against 0.86 times in the previous year. The firm has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.86 times as on March 31, 2018.

The total debt of Rs.1.76 crore consists of unsecured loans from promoters and relatives of Rs. 0.64 crore and short term debt of Rs. 1.12 crore. The moderate profitability levels have resulted in average net cash accruals of Rs.0.26 crore during 2016-19, while the debt levels have remained low at around Rs.1.76 crore during the same period, leading to moderate debt protection measures. The interest coverage ratio stood at 1.78 times in FY19 (Provisional) as against 1.57 times in the previous year. NCA/TD ratio stood 0.15 times in FY19 (Provisional). Acuité believes that the financial risk profile will continue to remain average on account of average levels of cash accruals and modest scale of operations.

- **Low profitability due to the trading nature of business**

SC has low operating profitability. The low profitability is primarily because of trading nature of operations and low value addition. SC reported operating margin of 2.36 per cent for FY2019 (Provisional) as against 2.49 per cent in the previous year. Further, the net profit margins are thin at 0.98 per cent in FY2019 (Provisional) as against 0.84 per cent in the previous year mainly on account of interest cost on bank borrowings and trading nature of operations. Acuité believes that the firm's operating margins would remain thin owing to the trading nature of its business.

- **Proprietorship constitution**

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

Liquidity Position:

SC has adequate liquidity marked by average net cash accruals. The company generated cash accruals of Rs.0.08-0.26 crore during the last three years through 2018-19, while there's no long term debt over the same period. The cash accruals of the company are estimated to remain at around Rs.0.44-0.73 crore during 2020-22. The firm's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 91 in FY 2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs.0.11 crore as on March 31, 2019 (Provisional). The current ratio of the company stood moderate at 1.06 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual while there are no maturing debt obligations.

Outlook: Stable

Acuité believes that Spectra Chemicals will maintain a 'Stable' outlook on account of its experienced management and established track record of operations. 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	23.07	20.30	14.61
EBITDA	Rs. Cr.	0.54	0.51	0.42
PAT	Rs. Cr.	0.23	0.17	0.05
EBITDA Margin	(%)	2.36	2.49	2.88
PAT Margin	(%)	0.98	0.84	0.37
ROCE	(%)	15.30	15.01	12.50
Total Debt/Tangible Net Worth	Times	0.83	0.86	0.81
PBDIT/Interest	Times	1.78	1.57	1.22
Total Debt/PBDIT	Times	2.96	2.89	3.45
Gross Current Assets (Days)	Days	91	97	144

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

None

Any other information

Not Applicable

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
14-Jun-2018	Cash Credit	Long Term	1.50	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	6.60	ACUITE A4 (Assigned)
	Proposed Cash Credit	Long Term	0.50	ACUITE B+ / Stable (Assigned)
	Proposed Letter of Credit	Short Term	2.40	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	1.50	ACUITE B+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE A4 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+ / Stable (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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