

Press Release

Spectra Chemicals

October 20, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs.11.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+ / Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

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

The rating upgrade is driven by growth in revenue of the firm while sustaining its profitability margins and working capital operations.

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 60 percent of its total purchases from Taiwan, Vietnam, Germany and China, to name a few. SC caters mainly to agrochemicals, edible oil, fertilizers, food & beverages and sugar industry amongst others.

Analytical Approach

Acuité has considered the standalone view of the financial and business risk profile SC to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced promoters and established track record**

The proprietor Mr. Mrugesh Gandhi has an experience of over more than 4 decades in the chemicals trading business. He is well supported by his son Mr. Sanket Gandhi. With the proprietor's extensive industry experience and understanding of the industry/market dynamics and business, along with established relationships with diversified customer base will act as an offset of demand risk. With four decades of operations, SC has built a strong association with many suppliers both in the domestic and international market across the product they trade in turn has ensured regular supply.

Acuité believes that the firm's established track record and the proprietor's experience will continue to support its business risk profile over near to medium term.

Weaknesses

- **Average financial risk profile**

SC's financial risk profile is average marked by modest net worth, low gearing and average debt protection metrics. The net worth of the firm stood low at Rs.2.26 crore as on March 31, 2020, as against Rs.2.07 crore as on March 31, 2019. The firm's gearing has deteriorated to 1.12 times as on March 31, 2020 from 0.77 times as on March 31, 2019. The increasing in gearing is to be attributed with an increase in working capital facilities availed and infusion of interest bearing unsecured loans. The total debt of the firm stood at Rs.2.53 crore as on 31 March 2020 consisting of unsecured loans of Rs.1.06 crore and short term debt of Rs.1.47 crore. The average profitability levels have resulted in net cash accruals of Rs.0.50 crore as on March 31, 2020, leading to average debt protection metrics. It's ICR (Interest Coverage Ratio) and DSCR (Debt-Service Coverage Ratio) improved to 1.98 times in FY2020 from 1.79 times in FY2019. The TOL/TNW (Total Outside Liabilities to Total Net Worth) improved to 3.34 times as on March 31, 2020 as against 3.61 times as on March 31, 2019. The NCA/TD (Net Cash Accrual to Total Debt) also improved to 0.20 times as on March 31, 2020 as against 0.17 times as on March 31, 2019.

Acuité believes that the financial risk profile can improve to moderate on account of improvement in cash accruals, no maturing debt obligations and continuous improvement in scale of operations from currently being modest.

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

SC's business risk profile is constrained by modest scale of operations as reflected in its revenue of Rs.27.33 crore in FY2020 as against Rs.23.07 in FY2019. The 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.

Acuité believes that the ability of the firm to sustain the trend in a highly competitive environment and fragmented industry will be a key rating sensitivity.

• Low profitability due to the trading nature of business

SC has low profitability levels primarily because of trading nature of operations and low value addition. SC reported an operating margin of 3.58 percent for FY2020 as against 2.38 percent in FY2019. Further, the net profit margins are thin at 1.70 per cent in FY2020 as against 0.99 percent in FY2019 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 nature of the entity's constitution

The firm is exposed to the risk associated with the proprietorship nature of the entity, including the risk of capital withdrawal that could adversely affect the capital structure limiting financial flexibility.

Liquidity position: Adequate

SC has adequate liquidity, marked by average net cash accruals. The firm generated cash accruals of Rs.0.50 crore for FY2020 and Rs.0.26 crore for FY2019, while there has been no long term debt during the same period. The cash accruals of the firm are estimated to remain at around Rs.0.50-Rs.1.00 crore during FY2021-23. Firm's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 86 in FY2020. SC maintains unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2020. The current ratio of the firm stood moderate at 1.15 times as on March 31, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual while having no maturing debt obligations.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Regulatory challenges faced in the domestic market and from the importing countries.

Material Covenants

None

Outlook: Stable

Acuité believes that Spectra Chemicals will maintain a 'Stable' outlook in the near to medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the firm registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	27.33	23.07
PAT	Rs. Cr.	0.46	0.23
PAT Margin	(%)	1.70	0.99
Total Debt/Tangible Net Worth	Times	1.12	0.77

PBDIT/Interest	Times	1.98	1.79
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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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Jul-2019	Cash Credit	Long Term	1.50	ACUITE B+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	6.60	ACUITE A4 (Reaffirmed)
	Proposed Cash Credit	Long Term	0.50	ACUITE B+ / Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	2.40	ACUITE A4 (Reaffirmed)
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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- / Stable (Upgraded from ACUITE B+ / Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.60	ACUITE A4+ (Upgraded from ACUITE A4)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- / Stable (Upgraded from ACUITE B+ / Stable)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.40	ACUITE A4+ (Upgraded from ACUITE A4)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Aditya Sahu Analyst – Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in	

About Acuité Ratings & Research:

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