

Press Release

Spectra Chemicals

January 07, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings Loan	8.70		ACUITE A4+ Reaffirmed
Bank Ratings Loan	2.30	ACUITE BB Stable Upgraded	
Total	11.00	-	-

Rating Rationale

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

Rationale for upward revision of ratings

The upward revision in ratings derives support from the Y-O-Y growth in scale of operations, better working capital management and improvement in the financial risk profile and debt-protection metrics. Further, the entity has been able to surpass the FY2021 operating income by September 2021 itself on the back of significant improvement in volume sales, this is expected to significantly improve the operating income in FY2022 as compared to FY2021. However, the above mentioned strengths are partly offset by thin profitability margins and highly competitive nature of the industry.

About the Company

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, Brazil, Europe, and China to name a few. SC caters mainly to agrochemicals, edible oil, fertilizers, food & beverages, and the sugar industry amongst others.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced promoters and established track record

The proprietor Mr. Mrugesh Gandhi has experience of over more than 4 decades in the chemicals trading business. He is well supported by his son Mr. Sanket Gandhi. The proprietor's extensive industry experience and understanding of the industry/market dynamics and business, along with established relationships with a 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. SC started importing from new markets such as Switzerland apart from existing suppliers based out of Taiwan, South Korea, Vietnam, UAE, Oman, China, Germany, and Brazil to name a few. It has also started importing rubber chemicals and antioxidants in FY2022 apart from phosphoric acid and Sulphur traded earlier.

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.

Moderate Working capital requirements

Due to the trading nature of the business, the operations are moderate working capital requirements in nature. This is reflected by the average bank limit utilization of ~55 percent for 7 month period till November 2021 and the GCA of 65 days in FY2021 compared to 86 days in FY2020 primarily due to improvement in debtor days and inventory days. Its Debtors stood at 52 days, Creditors at 45 days, and Inventory at 7 days in FY2021 compared to Debtors at 60 days, Creditors at 71 days, and Inventory days at 14 days in FY2020.

Moderate financial risk profile

SC's financial risk profile is moderate marked by modest net worth, low gearing, and average debt protection metrics. The net worth of the firm stood modest while improving on a Y-O-Y basis to Rs.3.02 crore as on March 31, 2021, as against Rs.2.26 crore as on March 31, 2020. The firm's gearing has improved to 0.83 times as on March 31, 2021 from 1.12 times as on March 31, 2020. The debt profile consists of unsecured loans of Rs.0.86 crore and short-term debt of Rs.1.65 crore as on March 31, 2021. The ICR (Interest Coverage Ratio) and DSCR (Debt-Service Coverage Ratio) improved to 3.35 times in FY2021 from 1.98 times in FY2020. The TOL/TNW (Total Outside Liabilities to Total Net Worth) improved to 2.28 times as on March 31, 2021 as against 3.34 times as on March 31, 2020. The NCA/TD (Net Cash Accrual to Total Debt) also improved to 0.43 times as on March 31, 2021 as against 0.20 times as on March 31, 2020.

Weaknesses

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

SC's business risk profile is constrained by the modest scale of operations as reflected in its revenue of Rs.37.06 crore in FY2021 as against Rs.27.33 in FY2020. The scale of operations remains 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 the trading nature of operations and low-value addition. SC reported an operating margin of 3.95 percent for FY2021 as against 3.58 percent in FY2020. Further, the net profit margins are thin while improving on a Y-O-Y basis at 2.82 percent in FY2021 as against 1.70 percent in FY2020 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.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.
- Regulatory challenges faced in the domestic market and from the importing countries.

Material covenants

None

Liquidity Position: Adequate

SC has adequate liquidity, marked by average net cash accruals. The firm generated cash accruals of Rs.1.08 crore for FY2021 and Rs.0.50 crore for FY2020, 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.2.00-Rs.4.00 crore during FY2022-24. The firm's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 65 in FY2021. SC maintains unencumbered cash and bank balances of Rs.0.04 crore as on March 31, 2021. The current ratio of the firm stood moderate at 1.31 times as on March 31, 2021.

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 a 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	37.06	27.33
PAT	Rs. Cr.	1.04	0.46
PAT Margin	(%)	2.82	1.70
Total Debt/Tangible Net Worth	Times	0.83	1.12
PBDIT/Interest	Times	3.35	1.98

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-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Oct 2020	Proposed Letter of Credit	Short Term	2.40	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Cash Credit	Long Term	0.50	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)
	Cash Credit	Long Term	1.50	ACUITE BB- Stable (Upgraded from ACUITE B+ Stable)

	Letter of Credit	Short Term	6.60	ACUITE A4+ (Upgraded from ACUITE A4)
24 Jul 2019	Proposed Letter of Credit	Short term	2.40	ACUITE A4 (Reaffirmed)
	Proposed Cash Credit	Long Term	0.50	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE B+ Stable (Reaffirmed)
	Letter of Credit	Short term	6.60	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BB Stable Upgraded
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.70	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB Stable Upgraded

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About Acuité Ratings & Research

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