

Press Release Spectra Chemicals

March 08, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed its long-term rating to **'ACUITE BB' (read as ACUITE double B)** and its 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'**.

Reason for reaffirmation

The rating reaffirmation factors in the stable albeit modest operating and financial performance of the firm marked by improvement in operating income and operating profitability. The revenue of the firm improved and stood at Rs.76.36 crore in FY2022 compared to revenue of Rs.37.06 crore in FY2021. The growth in the operating income is driven by the increase in the customers as well as increase in the price realization of products. However, the firm is likely to record a marginal decline in the revenue in FY2023 compared to FY2022 as the firm's revenue stood at Rs.49.58 crore for 10MFY2023. The rating draws comfort from the working capital efficient operations as well as adequate liquidity position of the firm. However, the ratings are constrained by the moderate financial risk profile of the firm as well as the risk of capital withdrawal.

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 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

Acuite 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 of operations

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. 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. 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.

Working capital efficient operations

The firm's operations are working capital efficient as evident from Gross Current Asset (GCA) of 27 days as on March 31, 2022, as against 65 days as on March 31, 2021. The inventory levels stood at 5 days for FY2022 compared against 7 days for FY2021. The firm does not maintain a large stock of inventory. The debtor days improved and stood at 14 days for FY2022 against 52 days for FY2021. The average credit period allowed to the customers is around 45 days. The creditor days of the firm stood at 27 days for FY2022 as against 45 days for FY2021. Average credit period received from the suppliers is around 30-45 days. The average utilization of the bank limits of the firm remains low at ~19 percent in last six months ended December' 2022. Acuité believes that the working capital operations are likely to remain efficient on account of trading nature of business.

Moderate financial risk profile

SC has a moderate financial risk profile marked by tangible net worth of Rs.4.54 crore as on 31 March 2022 as against Rs.3.02 crore as on 31 March 2021. The gearing level of the firm stood low at 0.28 times as on 31 March 2022 as against 0.83 times as on 31 March 2021. The total debt of the firm comprised of long-term debt of Rs.0.25 crore, unsecured loans of Rs.0.86 crore and short-term debt of Rs.0.06 crore as on 31 March 2022. The coverage ratios of the firm stood healthy with Interest Coverage Ratio (ICR) of 8.65 times for FY2022 against 3.35 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood at 8.10 times for FY2022 against 3.35 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the firm stood at 1.41 times for FY2022 as against 2.28 times in FY2021. Acuité believes that the firm is likely to maintain its moderate financial risk profile in medium term.

Weaknesses

Modest scale of operations

SC's business risk profile is constrained by its modest scale of operations and thin profitability margins. The company's revenues improved to Rs. 76.36 crore in FY2022 from Rs. 37.06 crore in FY2021. However, the operating income moderated to Rs. 49.58 crore in 10MFY23 and is expected to close the year in the range of Rs.55.00 - Rs.65.00 crore. Further, being a trading entity, the profitability margins of SC are thin. The firm operating margin ranged between 3.5-4 percent in the last two years ended FY21. It improved to 6.32 percent in FY22 driven by higher price realisation and increase in product profile. Acuité believes sustenance of the profitability margins while improving the scale of operations will remain a key rating monitorable.

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

The firm has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.4.46 crore in FY2022 compared against maturing debt obligations of Rs.0.04 crore over the same period. The cash accruals of the firm are estimated to remain in the range of Rs.3.33-4.16 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.0.08 crore during the same period. The firm's reliance on working capital borrowings is on a lower side marked by average utilization of working capital limits of ~19 percent during the last six months period ended December' 2022. The firm maintains unencumbered cash and bank balances of Rs.0.86 crore as on March 31, 2022. The current ratio stood at 1.66 times as on March 31, 2022.

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' if the financial risk profile deteriorates due to higher than expected working capital requirements or a major debt funded capex plan.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	76.36	37.06
PAT	Rs. Cr.	4.43	1.04
PAT Margin	(%)	5.79	2.82
Total Debt/Tangible Net Worth	Times	0.28	0.83
PBDIT/Interest	Times	8.65	3.35

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

Crisil vide its press release dated 18.05.2022 had rated SC to CRISIL B/A4; INC

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entity: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2022	Cash Credit	Long Term	1.80	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	0.50	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Letter of Credit	Short Term	8.70	ACUITE A4+ (Reaffirmed)
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)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

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