Acuite
RATINGS & RESEARCH

Press Release

Ashok Alco Chem Limited

March 11, 2019

Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 56.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and short term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs. 39.00 crore bank facilities of Ashok Alco-Chem Limited (AACL). The outlook is **'Stable'**.

Further, Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** to the Rs. 5.00 crore bank facilities of AACL. The outlook is **'Stable'**.

Also, Acuité has withdrawn the long-term rating of '**ACUITE BBB-' (read as ACUITE triple B minus)** to the Rs. 17.00 crore bank facilities of AACL. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating. The rating is being withdrawn on account of request received from AACL and No Dues Certificate (NDC) received from the banker.

Based in Raigad (Maharashtra), AACL was incorporated in 1992 by Mr. Ashok Kadakia, Mr. Pankaj Kadakia and Mr. Anil Kadakia. AACL was taken over by Aura Alkalies and chemicals Private Limited in 2009. AACL is engaged in the manufacturing of Ethyl Acetate and Acetaldehyde, and in the trading of minerals and ceramic materials such as bauxite, bentonite, kaolin, gypsum, iron ore, ball clay, quartz and feldspar. The manufacturing facility is located at Mahad (Maharashtra) with installed capacity of 25KT per annum for Ethyl Acetate and 7KT per annum for Acetaldehyde. AACL is also listed on BSE. AACL caters to industries such as pharmaceutical, paints, perfumeries and agriculture.

Analytical Approach

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

Key Rating Drivers

Strengths

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

The promoters have more than two decades of experience in the aforementioned line of business and established track record of around two decades which has enabled AACL to maintain healthy relationship with customers and suppliers. Acuité believes that AACL will sustain the existing business risk profile on the back of established track record and experienced promoters in the chemical industry over the near to medium term.

- **Healthy financial risk profile**

The financial risk profile of AACL is healthy marked by moderate net worth, healthy debt protection measures and low gearing. The net worth of AACL increased to Rs.46.90 crore as on March 31, 2018 as against Rs.46.66 crore in the previous year on account of retention of profits. Aries Group has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.25 times over the last three years through 2016-18. Total debt of Rs.10.31 crore as on March 31, 2018 includes Rs.1.19 crore term loan from bank which has been paid off in current financial year and working capital borrowing of Rs.9.12 crore. The gearing has further improved to 0.22 times on March 31, 2018 as compared to 0.25 times as on March 31, 2017. The interest coverage ratio (ICR) stood healthy at 4.40 times in FY2018 as against 3.36 times in FY2017. The debt service coverage ratio (DSCR) stood average at 1.66 times in FY2018 as against 2.25 times in FY2017. Acuité believes that AACL will sustain its financial risk profile on the back of healthy net cash accruals generation over the medium term.

* **Improvement in working capital management**
  AACL has recorded improvement in working capital cycle marked by GCA of 167 days in FY2018 as against 212 days in FY2017. The GCA days have improved due to early realisation from its receivables wherein the receivables stood at 55 days in FY2018 as against 71 days in FY2017. The inventory holding period stood low at 58 days in FY2018 as against 53 days in FY2017. The average bank limit utilisation stood at 88 percent for the last six months ended February 2019. AACL has unencumbered cash and bank balance of Rs.5.81 crore as on 31 March, 2018. Acuité believes that AACL will maintain sufficient funds over the medium term in order to maintain its working capital cycle.

Weaknesses

* **Fluctuating revenue profile with uneven profitability margins**
  AACL has fluctuating revenue profile owing to high dependence on trading segment in the past which contributed around 60 per cent of the total revenue in FY2016, however, the operations in trading division has been reduced after FY2017 and it contributed less than 7 per cent to the total turnover in FY2018. Operating income stood at Rs.156.48 crore in FY2018 as against Rs.148.63 crore in FY2017 and Rs.336.99 crore in FY2016. The profitability margins of AACL remained uneven at 5.27 per cent in FY2018 as against 3.03 per cent in FY2017 and 5.78 per cent in FY2016, majorly on account of fluctuation in raw material prices. Further, EBITDA margin has declined to 3.36 per cent for the last three quarters ended 31 December, 2018, majorly due to balances written off in the last three quarters. Acuité believes that the ability of AACL to scale up its operations and improve profitability margins, particularly in the trading division, will be a factor of key rating sensitivity over the medium term.

* **Competitive and fragmented industry**
  AACL operates in chemical compounds industry which is marked by the presence of several mid to big size players which limits the pricing power of AACL. However, this risk is mitigated to an extent as the management has been operating in this environment for the last two decades and AACL has an established brand name.

Liquidity Position:

AACL has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. AACL generated cash accruals of Rs.4.66-13.27 crore during the last three years through 2017-18, while its maturing debt obligations were Rs.1.19-2.00 crore over the same period. AACL is not expected to have any long term repayment obligations in the near term. However, net cash accruals to total debt (NCA/TD) of the group stood at 0.45 times for FY2018 (PY: 0.27 times). The cash credit limit of AACL remains utilised at 88 percent during the last three months period ended February 2019. AACL maintained unencumbered cash and bank balances of Rs.5.81 crore as on March 31, 2018. The current ratio of AACL stood average at 1.67 times as on March 31, 2018. Acuité believes that the liquidity of AACL is likely to remain adequate over the medium term on account of no major repayments over the medium term.

Outlook: Stable

Acuité believes that AACL will maintain 'Stable' outlook over the medium term from its established presence in the chemical industry. The outlook may be revised to 'Positive' in case the company registers improvement in its scale of operations while achieving comfortable operating profit margin. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its area of operations or in case of deterioration in the company's profitability on account of rising costs, and higher than expected debt funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	156.48	148.63	336.99
EBITDA	Rs. Cr.	5.21	4.50	19.47
PAT	Rs. Cr.	3.54	2.09	12.38
EBITDA Margin	(%)	3.33	3.03	5.78
PAT Margin	(%)	2.26	1.41	3.67
ROCE	(%)	13.29	8.71	76.70
Total Debt/Tangible Net Worth	Times	0.22	0.25	0.15
PBDIT/Interest	Times	4.40	3.36	28.16
Total Debt/PBDIT	Times	1.15	1.95	0.32
Gross Current Assets (Days)	Days	167	212	124

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Jun-2018	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Assigned)
	Term Loans	Long Term	1.00	ACUITE BBB-/ Stable (Assigned)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Assigned)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Proposed Term Loan	Long Term	11.00	ACUITE BBB-/Stable (Assigned)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A3 (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	9.00	ACUITE BBB- /Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- /Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB- (Withdrawn)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- /Stable (Assigned)

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About Acuité Ratings & Research:

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