

Press Release

Ashok Alco Chem Limited

June 26, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs.44.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.44.00 crore bank facilities of Ashok Alco-Chem Limited (AACL). The outlook is '**Stable**'.

The downgrade is driven by substantial decline in operating profitability of AACL on account of decline in prices of Ethyl Acetate which contributes 75 percent to the total turnover of AACL.

Based in Raigad (Maharashtra), AACL was incorporated in 1992 by Mr. Ashok Kadakia, Mr. Pankaj Kadakia and Mr. Anil Kadakia. AACL is engaged in the manufacturing of Ethyl Acetate and Acetaldehyde, and in the trading of minerals and caters to industries such as pharmaceutical, paints, perfumeries and agriculture. The company has its manufacturing facility at Mahad (Maharashtra) with installed capacity of 25KT per annum for Ethyl Acetate and 7KT per annum for Acetaldehyde. AACL is listed on BSE.

Analytical Approach

Acuite 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**

AACL has established track record of operations since 1992. The top management holds extensive experience of more than two decades which has helped AACL maintain healthy relationships with customers and suppliers throughout the years. This is reflected in steady growth in revenues which stood at 173.19 crore for FY2019 (Provisional) as against Rs.156.48 crore in FY2018 and Rs. 148.63 crore in FY2017.

- **Prudent capital structure**

Historically, AACL has followed conservative leverage policy as reflected by peak gearing of 0.25 times over the last three years through 2016-19. The gearing of AACL has further improved to 0.19 times as on March 31, 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.45 times as on 31 March, 2019 (Provisional) as against 0.96 times as on 31 March, 2018. The net worth of AACL decreased but remained moderate at Rs.43.41 crore as on March 31, 2019 (Provisional) as against Rs.46.90 crore in the previous year on account of operating loss incurred in FY2019 (Provisional).

AACL does not have any long-term debt obligations, while the total debt of Rs.8.40 crore as on March 31, 2019 (Provisional) consists entirely of working capital borrowings. Acuite believes that AACL's declining profitability and consequently, the lower plough back of earnings are expected to inhibit its ability to achieve any further improvement in its capital structure. Since the company does not have any major capex plans in the medium term, any further debt requirements will be linked to its working capital management.

Weaknesses

• Declining operating profitability

The profitability margins of AACL declined to remain uneven at 0.66 per cent in FY2019 (Provisional) as against 3.33 percent in FY2018 and 3.03 per cent in FY2017, majorly on account of fluctuation in raw material prices since the company is not able to pass the same on to the customers. In FY2019, AACL's profitability was affected majorly due to balances written off in the last three quarters in the trading segment. However, the company was not able to maintain profits in the manufacturing division as well and suffered cash loss of Rs.1.71 crore.

Acuite believes that the ability of AACL to improve profitability margins 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 in the organised as well as unorganised sector, 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.

Liquidity Position:

AACL has stretched liquidity marked by decline in net cash accruals to its maturing debt obligations. AACL has experienced significant moderation in operating profitability and thus generated negative cash accruals of Rs. 1.71 crore in FY2019 (Provisional). AACL is not expected to have any long-term repayment obligations in the near term. The GCA days stood at 190 days in FY2019 (Provisional) as compared to 167 days in FY2018. The receivable days stood at 61 days in FY2019 (Provisional) as against 55 days in FY2018. The inventory holding period stood at 41 days in FY2019 (Provisional) as against 58 days in FY2018. The average bank limit utilisation stood at 80 percent for the last six months ended May 2019. AACL maintained cash and bank balances of Rs.2.44 crore as on March 31, 2019 (Provisional). The current ratio of AACL stood average at 1.43 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of AACL is likely to remain stretched over the medium term on account of decline in profitability over the medium term.

Outlook: Stable

Acuite 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 operating margins. 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 further deterioration in the company's profitability or further stretch in AACL's liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	173.19	156.48	148.63
EBITDA	Rs. Cr.	1.14	5.21	4.50
PAT	Rs. Cr.	(2.89)	3.54	2.09
EBITDA Margin	(%)	0.66	3.33	3.03
PAT Margin	(%)	(1.67)	2.26	1.41
ROCE	(%)	(2.33)	13.29	8.71
Total Debt/Tangible Net Worth	Times	0.19	0.22	0.25
PBDIT/Interest	Times	(0.06)	4.40	3.36
Total Debt/PBDIT	Times	(89.32)	1.15	1.95
Gross Current Assets (Days)	Days	190	167	212

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
11- Mar-2019	Cash Credit	Long Term	9.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loans	Long Term	1.00	ACUITE BBB-/Stable (Withdrawn)
	Letter of Credit	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	11.00	ACUITE BBB-/Stable (Withdrawn)
	Proposed Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Letter of Credit	Short Term	5.00	ACUITE A3 (Withdrawn)
	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
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 BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Downgraded from ACUITE A3)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)

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About Acuité Ratings & Research:

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