

Press Release

Chemspark India Private Limited

May 05, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.05	ACUITE BBB- Stable Upgraded Positive to Stable	-
Bank Loan Ratings	8.95	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	11.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **Acuite double B plus**) and the short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.11.00 Cr bank facilities of Chemspark India Private Limited (CIPL). The outlook has been revised from '**Positive**' to '**Stable**'.

The rating upgrade takes into account the improvement in the business risk profile supported by increase in the operating income. The rating also factors the experienced management, long track operations and the above average financial risk profile of the company marked by robust debt protection metrics. These strengths are, however, offset by the working capital intensive nature of operations and the competitive industry.

About the Company

Based in Mumbai, Chemspark India Private Limited was incorporated in the year 2000 as a private limited entity. The company is currently headed by Mr. Sanjay Tawakley, Ms. Archana Tawakley, Mr. Shailesh Ganatra and Ms. Rashmi Ganatra. CIPL is the distributor of various companies offering products to different industries like personal and oral care, agrochemicals, pharmaceuticals, rubber, tyres and chemicals.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of CIPL to arrive at this rating.

Key Rating Drivers

Strengths

- Established track of operations and experienced management

CIPL has a long operational track record of more than two decades. The directors of the

company, Mr. Sanjay Tawakley, Mrs. Archana Tawakley, Mrs. Rashmi Ganatra and Mr. Shailesh Ganatra have been in the same line of business for more than three decades. The long track record and experienced has aided the growth of the company by establishing healthy relationships with the reputed clientele and going forward, Acuité believes that this will benefit the company resulting in steady growth in the scale of operations.

- **Improvement in business risk profile coupled with increase in operating income**

CIPL has achieved improvement in the top line in FY22 and has generated revenues of Rs.43.87 Cr (provisional). Moreover, the company has achieved revenues of Rs.41.31 Cr in FY21 as compared to revenues of Rs.39.97 Cr in FY20. The increase in the top line in FY22 is due to the ample supply of materials and strong customer base with adequate demand in the market. Apart from this, in FY22 the operating margin of CIPL stood at 12.15 per cent (provisional) and the PAT margin rose to 8.48 per cent (provisional). Moreover, the operating margin increased to 13.86 per cent in FY2021 as compared to 12.53 per cent in FY2020. The PAT margin rose 10.50 per cent in FY21 as compared to 8.03 per cent in FY20. The decline in the operating margin in FY22 is due to the rise in the raw material cost. Acuité believes that going forward, the growth in revenue along with improvement in the profitability margins of the company will be a key monitorable.

- **Comfortable financial risk profile**

The company's comfortable financial risk profile is marked by modest albeit improving net worth, very low gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.18.83 Cr as on March 31, 2021 from Rs.14.99 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the company stood comfortable at 0.13 times as on March 31, 2021 similar to the previous year. The total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.52 times as on March 31, 2021 as against 0.56 times as on March 31, 2020. The robust debt protection metrics is marked by Interest Coverage Ratio at 16.52 times as on March 31, 2021, and Debt Service Coverage Ratio at 12.58 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.79 times as on March 31, 2021. Acuité believes that going forward the financial risk profile will remain above average over the medium term, in the absence of any major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 179 days as on March 2021 as compared to 139 days as on March 2020. The moderate GCA days is on account of moderate debtor days. The debtor period stood at 87 days as on March 2021 as compared to 74 days as on March 2020. The reason for such debtor days is the extended credit period given to the reputed clientele, Glenmark Pharmaceuticals Limited, Integrin Lifesciences Private Limited, Chemspec Chemicals Limited, to name a few. Moreover, the inventory holding stood comfortable at 32 days as on March 2021 as compared to 28 days as on March 2020. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient inventory holding and extended collection mechanism over the medium term.

- **Highly competitive and fragmented nature of business**

The company is operating in a highly competitive industry marked by several organized and unorganized players which further limits the bargaining power of the company.

Rating Sensitivities

- Increasing scale of operations while sustaining profitability margins
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.4.42 Cr as on March, 2021 as against no such debt repayment for the year. The company has not availed any loan moratorium. The fund based limit utilisation remains nil over the nine months of FY2021 as the company does not require to use the limits due to getting sufficient clean credit. The cash and bank balances of the company stood at Rs.4.59 Cr as on March 31, 2021. The current ratio stood comfortable at 2.90 times as on March 31, 2021 as compared to 2.80 times as on March 31, 2020. The working capital intensive nature of operations of the company is marked by Gross Current Assets (GCA) of 179 days in 31st March 2021 as compared to 139 days in 31st March 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on CIPL will remain 'Stable' over the medium term on account of the experienced management, improving business risk profile and the comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue or operating margins from the current levels. Conversely, the outlook may be revised to 'Negative' in case of a decline in revenue or operating margins, deterioration in financial risk profile or further elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	41.31	39.97
PAT	Rs. Cr.	4.34	3.21
PAT Margin	(%)	10.50	8.03
Total Debt/Tangible Net Worth	Times	0.13	0.13
PBDIT/Interest	Times	16.52	10.71

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <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
07 Dec 2020	Cash Credit	Long Term	5.55	ACUITE BB+ Positive (Reaffirmed)
	Letter of Credit	Short Term	5.45	ACUITE A4+ (Reaffirmed)

13 Sep 2019	Letter of Credit	Short Term	3.95	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	5.55	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Proposed Bank Facility	Short Term	0.50	ACUITE A4+ (Reaffirmed)
28 Jun 2018	Cash Credit	Long Term	4.00	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	0.05	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	3.95	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	2.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BBB- Stable Upgraded Positive to Stable (from ACUITE BB+)
CITI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Upgraded Positive to Stable (from ACUITE BB+)
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.45	ACUITE A3 Upgraded (from ACUITE A4+)
CITI Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3 Upgraded (from ACUITE A4+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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