

Press Release

Kemco Corporation

November 15, 2018



Rating Assigned

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 assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE BBB minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 56.00 crore bank facilities of Kemco Corporation. The outlook is '**Stable**'.

The Mumbai-based, Kemco Corporation (KC) was established in 1995 as a partnership firm by Mr. Yogesh Sanghvi and Mrs. Bharti Y. Sanghvi. Recently, Mr. Meet Sanghvi (Son) joined the business as a third partner. The firm is into trading of Titanium dioxide, Rutile and Anatase. KC is sole agent of Jiangxi Tikon Titanium Products Co. Limited (China) for India as well as authorised agent of The Kerala Minerals & Metals Limited.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience management and established customer base**

The firm was founded in 1995 by Mr. Yogesh Sanghvi and family. The management has experience of over two decades in industry. The long standing presence in the industry has helped to establish large customer base of more than 500 inclusive of many prestigious clients. Acuité believes that the firm will sustain the existing business profile over the medium term on the back of established position and extensive experience of the management.

- **Healthy revenue growth albeit decline in profitability margins**

The operating income stood at Rs.232.21 crore for FY2018, ~80 percent growth from the previous year which stood at Rs.128.68 crore in FY2017 and Rs.122.31 crore in FY2016. The reason for growth in operating income is on account of acquiring new customers thereby KC compromised on its margins. The operating margins stood at 2.96 percent in FY2018 as compare to 6.56 percent in FY2017.

- **Improving Working capital cycle**

The working capital cycle of KC is experiencing improvement for the period under study (FY2018- FY2016). The same is reflected as Gross Current Asset (GCA) days stood at 80 in FY2018 as compare to 108 days in FY2017 and 116 days in FY2016. This improvement is on the basis of free credit received from majority of the suppliers.

- **Above average financial risk profile**

KC has above average financial risk profile marked by tangible net worth of Rs.15.80 crore as on 31 March, 2018 as against Rs.14.57 crore as on 31 March, 2017. This includes unsecured loan of Rs.4.16 crore as on 31 March, 2018 which is considered as quasi-equity. The adjusted gearing stood at 0.93 times as on 31 March, 2018 as against 0.67 times as on 31 March, 2017. The debt of Rs.14.76 crore consists of working capital borrowings of Rs.14.70 crore and vehicle loans of Rs.0.06 crore. Interest Coverage Ratio (ICR) stood at 2.06 times in FY2018 as against 3.37 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.96 times as on 31 March, 2018 as against 2.49 times as on 31 March, 2017. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.27 times in FY18 as against 0.67 times in FY2017. Acuité believes that the financial risk profile is expected to be at similar

levels over the medium term as the firm has no capex plan.

Weaknesses

- **Susceptibility of profitability to volatility in raw material prices and foreign exchange rates**

KC imports titanium dioxide and the prices for the same are volatile in nature. Hence, the firm is susceptible to foreign exchange risk. Any adverse change in the prices of product and exchange rate may impact the profitability margins of the firm.

Outlook: Stable

Acuité believes that KC will maintain a 'Stable' outlook over the medium term owing to its established presence all over India and robust growth in revenue while maintaining working capital requirements. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	232.21	128.68	122.31
EBITDA	Rs. Cr.	6.87	8.45	3.41
PAT	Rs. Cr.	3.97	6.53	1.85
EBITDA Margin (%)	(%)	2.96	6.56	2.79
PAT Margin (%)	(%)	1.71	5.07	1.51
ROCE (%)	(%)	28.25	41.51	18.08
Total Debt/Tangible Net Worth	Times	0.93	0.67	0.89
PBDIT/Interest	Times	2.06	3.37	1.71
Total Debt/PBDIT	Times	1.89	1.05	2.13
Gross Current Assets (Days)	Days	80	108	116

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

ICRA, vide its press release dated September 25, 2018 had denoted the rating of Kemco Corporation as '[ICRA] BB (Stable) / [ICRA] A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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 (Upto last three years)

Not Applicable

*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	12.00*	ACUITE BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.00**	ACUITE A3
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	22.00***	ACUITE A3

*working capital demand loan sublimit to cash credit up to Rs. 12.00 crore; sight/usance letter of credit sublimit to cash credit up to Rs. 12.00 crore; Bank Guarantee sublimit to cash credit up to Rs. 5.00 crore

**Bank Guarantee sublimit to Letter of credit up to Rs. 21.00 crore; cash credit sublimit to letter of credit up to Rs. 6.50 crore

***overdraft sublimit to Letter of credit up to Rs. 5.50 crore; working capital demand loan sublimit to Letter of credit up to Rs. 4.00 crore; bank guarantee sublimit to Letter of credit up to Rs.22.00 crore

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About Acuité Ratings & Research:

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