Press Release

Madras Chemicals And Polymers

December 03, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** to the Rs. 14.00 crore bank facilities of Madras Chemicals And Polymers (MCP). The outlook is **'Stable'**.

The Chennai based, MCP was established in 1997. It is engaged in wholesale distribution of chemicals such as Caustic Soda Lye, Flakes, Hydrochloric Acid and PVC Resins for Chemplast Sanmar Limited in North Tamil Nadu and Pondicherry region. It also acts as a del credere agent for Chemplast Sanmar Limited.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters:**
  MCP is the sole distributor of chemicals for Chemplast Sanmar Limited in North Tamil Nadu and Pondicherry. It has been engaged in the said line of business since 1997. MCP is led by promoter, Mr. Ashok Gupta, who has two decades of experience in the industry. During this period, the concern has established long term relationship with reputed customers such as Sundaram Fasteners Limited, Hindustan Uniliver Limited, Malladi Drugs & Pharmaceuticals Limited, EID Parry India Limited, Tagros Chemicals Private Limited, amongst others. Acuité believes that MCP will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Comfortable financial risk profile**
  The financial risk profile of MCP is comfortable marked by tangible net worth of Rs.26.98 crore as on 31 March, 2018 as against Rs.24.76 crore as on 31 March, 2017. The gearing stood at 0.14 times as on 31 March, 2017 as against 0.16 times as on 31 March, 2017. The debt of Rs.3.87 crore mainly consists of working capital borrowings as on 31 March, 2018. Interest Coverage Ratio (ICR) stood healthy at 14.42 times in FY2018 as against 12.43 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 14.42 times in FY2018 as against 12.43 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.18 times as on 31 March, 2018 as against 0.29 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.17 times as on 31 March, 2018 as against 0.88 times as on 31 March, 2017. Going forward, Acuité expects the financial risk profile to remain stable in the absence of major debt funded capex plans.

Weaknesses

- **Working capital intensive operations**
  MCP's operations are working capital intensive marked by high Gross Current Assets (GCA) of 161 days in FY2018 compared to 157 days in FY2017. The GCA days are mainly dominated by high debtor days of 167 in FY2018 compared to 158 days in FY2017. The average cash credit utilisation for the past six months stood at ~70 percent. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Geographic and supplier concentration risk**

MCP has been in trading for more than two decades. However, almost 90 percent of its revenue is from Chennai and Pondicherry. Thus, MCP's revenue growth is dependent on regional impetus on infrastructure development. Further, MCP is exposed to supplier concentration risk as it deals majorly for Chemplast Sanmar Limited. The supplier concentration limits the company's growth and bargaining power.

Outlook: Stable

Acuité believes that MCP will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	71.17	72.41	52.78
EBITDA	Rs. Cr.	4.88	3.74	3.73
PAT	Rs. Cr.	4.50	3.41	2.27
EBITDA Margin	(%)	6.86	5.16	7.06
PAT Margin	(%)	6.32	4.71	4.31
ROCE	(%)	16.25	13.71	19.33
Total Debt/Tangible Net Worth	Times	0.14	0.16	0.12
PBDIT/Interest	Times	14.42	12.43	12.98
Total Debt/PBDIT	Times	0.79	1.04	1.12
Gross Current Assets (Days)	Days	161	157	174

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

Not Applicable

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
Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB / Stable

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About Acuité Ratings & Research:
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