

Press Release

Subray Catal Chem Private Limited

January 07, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 45.25 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 triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 45.25 crore bank facilities of Subray Catal Chem Private Limited (SCPL). The outlook is '**Stable**'.

SCPL was incorporated in order for the group to expand in manufacturing of metallic Stearates, Lubricants Lub Wax and one-pack PVC stabilizers.

Analytical Approach

To arrive at rating, Acuité has considered the consolidated business and financial risk profiles of Lalitha Chem Industries Private Limited, ALA Chemicals Private Limited and Subray Catal Chem Private Limited, hereinafter referred to as 'Lalitha Group'. The consolidation is on account of similarity in the line of business, common management and strong operational and financial synergies between the group companies. Extent of Consolidation : Full.

About the Group

Lalitha Group consists of three companies, namely, Lalitha Chem Industries Private Limited, ALA Chemicals Private Limited and Subray Catal Chem Private Limited. This group is engaged in manufacturing of organic and inorganic chemicals including PVC Plasticizers, CPVC Compounds, Calcium Zinc Stabilizers, Tin Stabilizers for PVC, Metallic Stearates and Lubricants.

Lalitha Chem Industries Private Limited (LCPL) was established in 1978 by Hosmane family. The chief promoters are Mr. Subray Hosmane and Mrs. Veena Hosmane. LCPL is engaged in manufacturing and trading of organic and inorganic chemicals like PVC Plasticizers, CPVC Compounds, Calcium Zinc Stabilizers, Tin Stabilizers for PVC, Metallic Stearates, Lubricants among others. These products are mainly used in irrigation and infrastructure industries.

ALA Chemicals Private Limited (ALA) was incorporated in 1966 and taken over by Lalitha Group in 2015. ALA is engaged in manufacturing and trading of PVC additives which are known as 'Heat Stabilizers'. The heat stabilizers are based on Lead, Tin, Barium/Cadmium/Zinc/Potassium and Calcium/Zinc.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

Lalitha Group is engaged in manufacturing of different types of Stabilizers, PVC plasticizers and CPVC compounds since 1978. The Directors, Mr. Subray Hosmane looks over the plant operations and sales and Mrs. Veena Hosmane looks after finance and other sales supporting functions. The promoters are equally supported by second line of management comprising Ms. Suma Hosmane. The promoters have experience of around four decades in the chemical industry. The extensive experience of the promoters has helped the group in generating healthy relation with various suppliers and customers.

Acuité believes that the group will continue to benefit from its management's experience and long track record of operations.

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

The operating income of Lalitha Group stood at Rs.350.80 crore for FY2018, ~28 percent growth from the previous year which stood at Rs.274.03 crore and Rs.258.46 crore in FY2016. The growth in operating income is on account of addition of new products and acquisition of new customers by Lalitha Group. However, the operating margins have declined to 5.09 percent in FY2018 from 6.04 percent in FY2017 mainly on account of increase in the raw material cost.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by moderate net worth and debt protection matrices. The net worth is moderate at around Rs.81.36 crore as on 31 March, 2018 as against Rs.68.53 crore as on 31 March, 2017. The net worth is inclusive of Rs.15.23 crore of unsecured loans by the promoters as on 31 March, 2018 which is considered as quasi equity. The gearing of Lalitha Group stood comfortable at 0.76 times as on 31 March 2018 against 1.39 times as on 31 March, 2017. The total debt of Rs. 61.72 crore as on 31 March, 2018 comprises of term loan from bank of Rs.4.15 crore and short term borrowing from bank of Rs.57.57 crore. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.77 times as on 31 March, 2018 as against 2.92 times as on 31 March, 2017. Interest Coverage Ratio (ICR) has remained average at 2.14 times in FY2018 and 2.16 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 1.78 times for FY2018 as against 1.81 times in FY2017.

Acuité believes that the financial risk profile of Lalitha Group will continue to remain moderate over the medium term in the absence of major debt funded capexplans.

Weaknesses

- **Working capital intensive operations due to long gestationperiod**

The operations of Lalitha Group are working capital intensive marked by Gross Current asset days of 200 days in FY2018 as against 203 days in FY2017. This is majorly on account of high receivables period of 133 days in FY2018 and 109 days in FY2017. The inventory holding period stood at 36 days in FY2018 as against 47 days in FY2017. The payables period has increased to 180 days in FY2018 as compared to 148 days in FY2017. However, the average bank limit utilisation stood at ~40 per cent for the last three months ended September 2018.

Acuité believes that efficient working capital management will be crucial to the group for maintaining a stable credit profile.

- **Susceptibility of profits to volatility in raw material prices and fluctuation in forex**

The major raw material for Lalitha Group comprises of various types of chemical resins and additives which are mainly imported and the price of same is highly volatile in nature. Raw material costs account to 92 percent of group's turnover. Hence, any adverse movement in the raw material prices can impact the profitability of group. The group imports around 85 percent of its raw material requirement from countries including Japan, Singapore, Bangladesh and Malaysia, thereby rendering it to risks associated with exchange rate fluctuation for unhedged portion of imports.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' risk profile over the medium term. The outlook may be revised to 'Positive' in case the group registers more than anticipated growth in revenues, achieve sustainable profitability and maintaining financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or in case of deterioration in the group's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	350.80	274.03	258.46
EBITDA	Rs. Cr.	17.85	16.55	16.44
PAT	Rs. Cr.	8.66	7.93	7.80
EBITDA Margin	(%)	5.09	6.04	6.36
PAT Margin	(%)	2.47	2.89	3.02
ROCE	(%)	16.45	15.94	33.67
Total Debt/Tangible Net Worth	Times	0.76	1.39	1.08
PBDIT/Interest	Times	2.14	2.16	2.29
Total Debt/PBDIT	Times	2.35	3.86	2.88
Gross Current Assets (Days)	Days	201	203	207

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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	10.00	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+

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About Acuité Ratings & Research:

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