

Press Release

Subray Catal Chem Private Limited

January 08, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 45.25 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 45.25 crore bank facilities of Subray Catal Chem Private Limited (SCPL). The outlook remains '**Stable**'.

Subray Catal Chem Private Limited was established in 2005. SCPL is engaged in manufacturing and trading of organic and inorganic chemicals such as PVC plasticizers, CPVC compounds, calcium zinc stabilizers, tin stabilizers for PVC, metallic stearates and lubricants which are primarily catering to irrigation and infrastructure industries.

About the Group

Lalitha Chem Industries Private Limited, ALA Chemicals Private Limited and Subray Catal Chem Private Limited together form the Lalitha Group (LG). The chief promoters of the group are Mr. Subray Hosmane and Mrs. Veena Hosmane. All companies in Lalitha Group are engaged in manufacturing and trading of organic and inorganic chemicals.

Analytical Approach

Acuite 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 to arrive at the rating taking into account same line of business, common management and various business and financial linkages between the group companies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and established track record of operation

Lalitha Group is engaged in manufacturing of different types of Stabilizers, PVC plasticizers and CPVC compounds since 1978. The Director, Mr. Subray Hosmane handles the plant operations and sales along with his wife, Mrs. Veena Hosmane. They are supported by an experienced second line of management comprising of their daughter, Ms. Suma Hosmane and Mr. Venkatraman, CFO of the Group. Mr. Subray Hosmane and Mrs. Veena Hosmane hold almost four decades of experience in the same line of business, which has helped them maintain relations with their customers and suppliers.

Acuite believes that Lalitha Group will continue to benefit from the experience of its management and established relations with its customers and suppliers.

• Above average financial risk profile

The financial risk profile of the group is above average marked by moderate net worth and debt protection measures and low gearing. The net worth of Lalitha Group is moderate at Rs. 92.19 crore as on 31 March, 2019 as against Rs. 81.36 crore as on 31 March, 2018. The net worth is inclusive of Rs. 15.21 crore of unsecured loans by the promoters to support the incremental working capital requirements. The gearing of Lalitha Group stood average at 0.55 times as on 31 March, 2019. The gearing stood at 2.07 times as on 31 March 2018. The significant decline in gearing is on account of change in the facilities availed by the group. Until the previous year the Lalitha group relied on buyer's credit for its working capital funding; however after the discontinuation of the facility the group had to shift to more non-fund based facilities. It has also reduced debt by liquidating its investments. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.56 times as on 31 March, 2019 as against 2.77 times as on 31 March, 2018. Interest Coverage Ratio (ICR) has remained average at 2.45 times in FY2019 marginally improving from 2.14 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.24 times as on 31 March, 2019 as against 0.06 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.28 times in FY2019 as against 1.78 times in FY2018.

Acuite believes that the financial risk profile of Lalitha Group will continue to remain moderate over the medium term on account of its improving profitability.

• Improvement in profitability despite of decline in revenue

The operating income of Lalitha Group stood at Rs. 347.43 crore for FY2019, marginally declining from Rs. 350.80 crore in FY2018. The decline in operating income is on account of overall slowdown in the economy and manufacturing activity. However the profitability has shown an improvement. The operating margins of Lalitha Group stood at 5.59 percent in FY2019 as compared to 5.09 percent in FY2018.

Weaknesses

• Working capital intensive operations

The operations of Lalitha Group are working capital intensive marked by Gross Current Assets (GCA) of 202 days in FY2019 and 201 days in FY2018. This is majorly on account of high receivable period of 131 days in FY2019 and 133 days in FY2018. The inventory holding period increased to 51 days in FY2019 from 36 days in FY2018. The payable period has increased to 102 days in FY2019 as compared to 61 days in FY2018. However, the average bank limit utilisation stood at ~50 percent for the last three months ended November 2019.

• Susceptibility of raw material prices and fluctuation in foreign exchange rate

The major raw materials for Lalitha Group are various types of chemical resins and additives which are mainly imported and the prices of same are highly volatile in nature. Raw material costs account up to 90 percent of Lalitha Group's turnover, hence, any adverse movement in the raw material prices can impact the profitability of Lalitha Group. Lalitha Group imports around 90 percent of its raw material requirement from countries including Japan, Singapore, China and Malaysia. However, Lalitha group covers 50 percent of their forex exposure under the forward contracts, so the margins are protected against any fluctuation in forex rate to that extent.

Liquidity Position: Adequate

Lalitha Group has adequate liquidity marked by current ratio of 1.51 times as on March 31, 2019. Net cash accruals stood at Rs. 11.70 crore in FY2019. The operations are working capital intensive marked by GCA days of 202 in FY2019 and 201 in FY2018. The bank limit utilization remains moderate at ~50 per cent for six months ended November 2019. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate net cash accruals and adequate unutilized bank limits over the medium term.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuite believes LG will maintain a stable business risk profile in the medium term on account of its experienced management and established relationship with customers and suppliers. The outlook may be revised to 'Positive' in case LG registers significant growth in revenue while maintaining profit margins. Conversely, the outlook may be revised to 'Negative' in case LG registers significant decline in revenue and profitability or in case of elongation in LG's working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	347.43	350.80
Profit after Tax (PAT)	Rs. Cr.	19.43	17.85
PAT Margin	(%)	10.83	8.66
Total Debt/Tangible Net Worth	Times	0.55	2.07
PBDIT/Interest	Times	2.45	2.14

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
07-Jan-2019	Cash Credit	Long Term	10.00	ACUITE BBB /Stable (Assigned)
	Letter of Credit	Short Term	35.00	ACUITE A3+ (Assigned)
	Bank Guarantee/ Letter of credit	Short Term	0.25	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	8.70	ACUITE BBB /Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE BBB /Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3+ (Reaffirmed)

Bank Guarantee/ Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)

Contacts

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