

## Press Release

**Ala Chemicals Private Limited**

January 07, 2019



**Rating Assigned**

<b>Total Bank Facilities Rated*</b>	Rs. 71.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable
<b>Short Term Rating</b>	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. 71.50 crore bank facilities of Ala Chemicals Private Limited (ALA). The outlook is '**Stable**'.

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.

### Analytical Approach

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 to arrive at the rating due to same line of business, common management and various business and financial linkages between the group companies. The group is hereinafter referred to as 'Lalitha Group'.

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 including PVC Plasticizers, CPVC Compounds, Calcium Zinc Stabilizers, Tin Stabilizers for PVC, Metallic Stearates and Lubricants among others. These products are mainly used in irrigation and infrastructure industries.

Subray Catal Chem Private Limited was incorporated for expanding in manufacturing of metallic Sterates, Lubricants Lub Wax and one-pack PVC stabilizers.

### 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 capex plans.

### **Weaknesses**

- **Working capital intensive operations due to long gestation period**

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 percent 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 while 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
Term loans	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	28.00*	ACUITE A3+

\*Rs. 28.00 crore includes sublimit of cash credit of Rs.8.00 crore.

^Fund based limit of Rs.10.00 crore interchangeable with Non-fund based.

**Contacts**

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Sushmita Murai Analyst - Rating Operations Tel: 02249294055 <a href="mailto:sushmita.murai@acuiteratings.in">sushmita.murai@acuiteratings.in</a>	

**About Acuité Ratings & Research:**

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.