

Press Release

ABC Chemical Exports Private Limited

D-U-N-S® Number: 67-784-2961



March 07, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs.25.25 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 minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.25.25 crore bank facilities of ABC Chemical Exports Private Limited. The outlook is '**Stable**'.

The Mumbai based ABC Chemical Exports Private Limited (ACEPL) was incorporated in 1997. The company promoted by Mr. Hiroo Thadani and Mr. Vinay Thadani is engaged in trading and export of pigments, resins, chemicals and additives used in manufacturing of printing inks, paints, flexible packaging plastics, resins and rubber. The company has its registered office in Mumbai with offices in USA, China, Egypt, UAE, Nigeria and Thailand.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in the chemical trading segment**

The promoter, Mr. Hiroo Thadani has an extensive experience in the chemical trading segment for more than three decades. He is equally supported by second generation management comprising of Mr. Vinay Thadani who has experience of around two decades in the industry. The extensive experience of the promoters and the established presence in the industry has helped the company to generate healthy relations with various customers and suppliers in both domestic as well as global market. The company has global customer base spread across USA, China, Egypt, UAE, Nigeria, Thailand, Kenya, Ivory Coast, Senegal among others.

Acuité believes that ACEPL will continue to benefit from the promoter's established presence in the chemical industry and its improving its business risk profile over the medium term.

- **Improvement in the scale of operations**

The company registered revenues of Rs.143.40 crore in FY2018 as against Rs.124.35 crore in FY2017. Further, in FY2019 the company registered revenues of Rs.161.80 crore for the period April 2018 to January 2019 (Provisional). The revenue growth in FY2019 was mainly on account of entering into of new geographies of Ivory Coast and Senegal and addition of customers in existing location such as Nigeria.

- **Moderate working capital cycle**

The company has moderate working capital cycle marked by Gross Current Assets (GCA) of 92 days for FY2018 as against 99 days for FY2017. The GCA is mainly dominated by receivable period of 78 days for FY2018 as against 89 days for FY2017. On the other hand, the company gets the credit period of around 80-90 days from its suppliers.

Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

- **Moderate capital structure**

ACEPL is having moderate capital structure marked by its moderate net worth of Rs.10.19 crore as on 31 March 2018 as against Rs.9.06 crore. The coverage ratio stood comfortable with interest coverage ratio of 3.37 percent for FY2018 as against 3.36 percent for FY2017. However, The Total Outside Liabilities to Tangible Net Worth (TOL/TNW) stood high at 4.74 times as on 31 March 2018 as against 5.00 times as on 31 March 2017.

Acuité believes ability of the company to improve its capital structure by improvement in the net worth will be a key rating sensitivity.

- **Low profitability marked by trading nature of operations**

ACEPL's operating margins have shown uneven trend during the period under study which stood at 2.33 percent for FY2018 as against 2.34 percent for FY2017 as against 3.16 percent for FY2016. The net margins also stood low at 0.79 percent for FY2018 as against 0.76 percent for FY2017. The lower margins are mainly on account of trading nature of business and competitive industry limiting the bargaining power with the customers.

- **Exposure to foreign exchange fluctuations**

ACEPL's entire revenues comes from exports while the company procures some of the raw materials domestically thereby rendering it to the risk associated with foreign exchange fluctuations for the unhedged portion of exports.

Liquidity position

ACEPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.08 to Rs.2.29 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.0.40 to Rs.0.80 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.2.50 - Rs.3.50 crore during 2019-21. The company has moderate working capital operations as marked by Gross Current Asset (GCA) days of 92 in FY2018. The company maintains unencumbered cash and bank balances of Rs.4.23 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.03 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual while its maturing debt obligations are estimated to be in the range of Rs.0.40 to Rs.0.70 crore.

Outlook: Stable

Acuité believes that ACEPL will maintain a 'Stable' outlook and benefit over the medium term owing to its promoters' extensive experience in the chemical industry and established relations with clientele. The outlook may be revised to 'Positive' if the net cash accruals increase substantially with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and liquidity or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded expansion and working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	143.40	124.35	112.05
EBITDA	Rs. Cr.	3.34	2.91	3.54
PAT	Rs. Cr.	1.13	0.95	0.89
EBITDA Margin	(%)	2.33	2.34	3.16
PAT Margin	(%)	0.79	0.76	0.80
ROCE	(%)	21.83	20.51	44.60
Total Debt/Tangible Net Worth	Times	0.41	0.39	0.57
PBDIT/Interest	Times	3.37	3.36	3.04
Total Debt/PBDIT	Times	1.04	0.98	1.09
Gross Current Assets (Days)	Days	92	99	81

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <http://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. Crore)	Ratings/Outlook
FBP/FBD/FBN	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3

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About Acuité Ratings & Research:

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