

Press Release

ABC Chemical Exports Private Limited

May 14, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.25.25 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to Rs.25.25 crore bank facilities of ABC Chemical Exports Private Limited. The outlook remains '**Stable**'.

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

Acuite 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.

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

- **Improvement in the scale of operations**

The company registered revenues of Rs.187.90 crore in FY2019 as against Rs.143.40 crore in FY2018. Further, in FY2020 the company registered revenues of Rs.193.00 crore for the period April 2019 to February 2020 (Provisional). The revenue growth in FY2020 was mainly on account of high demand from its existing customers and entering into of new geographies of Brazil and Canada.

Acuite believes that the ACEPL scale of operations will continue to grow on account of well diversified product portfolio and customer base across the globe.

- **Moderate working capital cycle**

The company has moderate working capital cycle marked by Gross Current Assets (GCA) of 76 days for FY2019 as against 92 days for FY2018. The GCA is mainly dominated by receivable period of 68 days for FY2019 as against 78 days for FY2018. The company also maintained very low inventory level of 2 days for FY2019 compared to 3 days same period last year. On the other hand, the company gets the credit period of around 70-90 days from its suppliers.

Acuite believes that the efficient working capital management will be crucial to the firm 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.12.33 crore as on 31 March 2019 as against Rs.10.19 crore as on 31 March 2018. The coverage ratio stood comfortable with interest coverage ratio of 3.35 percent for FY2019 as against 3.37 percent for FY2018. The Total Outside Liabilities to Tangible Net Worth (TOL/TNW) improved marginally but still stood high at 4.01 times as on 31 March 2019 as against 4.74 times as on 31 March 2018.

Acuite believes that the 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 an even trend during the period under study which stood at 2.53 percent for FY2019 as against 2.33 percent for FY2018. The net margins also stood low at 0.97 percent for FY2019 as against 0.79 percent for FY2018. The lower margins are mainly on account of trading nature of business and competitive industry limiting the bargaining power with the customers.

Liquidity position: Adequate

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.3.09 crore during the last three years through 2017 - 19, while its maturing debt obligations were in the range of Rs.0.23 to Rs.0.24 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.3.49 - Rs.4.13 crore during 2020-22. The company has moderate working capital operations as marked by Gross Current Asset (GCA) days of 76 in FY2019. The company maintains unencumbered cash and bank balances of Rs.3.70 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.09 times as on March 31, 2019. Acuite 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.0.24-0.25 crore.

Outlook: Stable

Acuite 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	187.90	143.40
PAT	Rs. Cr.	1.82	1.13
PAT Margin	(%)	0.97	0.79
Total Debt/Tangible Net Worth	Times	0.32	0.41
PBDIT/Interest	Times	3.35	3.37

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

CRISIL, vide its press release dated 22 April 2019 has denoted the rating of ACEPL as CRISIL BB/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
07-Mar-2019	FBP/FBD/FBN	Long term	5.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short term	12.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short term	0.25	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short term	8.00	ACUITE A3 (Assigned)

***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 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Reaffirmed)

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About Acuite Ratings & Research:

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