

## Press Release

ABC Chemical Exports Private Limited

August 06, 2021



### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs.25.25 Cr.
<b>Long Term Rating</b>	ACUITE BBB/Outlook: Stable (Upgraded from ACUITE BBB-/Stable)
<b>Short Term Rating</b>	ACUITE A3+ (Upgraded from ACUITE A3)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (read as ACUITE triple B) from '**ACUITE BBB-**' (read as ACUITE triple B Minus) and the short term rating to '**ACUITE A3+**' (read as ACUITE A three plus) from '**ACUITE A3**' (read as ACUITE A three) to the Rs.25.25 crore bank facilities of ABC Chemical Exports Private Limited (ACEPL). The outlook is '**Stable**'.

The rating upgrade reflects the increase in total operating income during FY21, along with improvement in working capital management led by shortened debtors and inventory period. Further, the company's financial risk profile is also at comfortable level backed by lower debt levels and accretion of profit to reserves, thereby strengthening tangible net worth of ACEPL.

### About the rated entity

ABC Chemical Exports Private Limited (ACEPL) was incorporated in 1997 by Mr. Hiroo Thadani and Mr. Vijay Thadani. The company is engaged in trading and exports of pigments, resins chemicals and additives that are used in manufacturing of printing inks, paints, packaging, plastics, textile and rubber. The company has registered office in Mumbai and also has offices in USA, China, Egypt, UAE, Nigeria and Thailand. In addition to this, ACEPL has its own private lab to check the quality and meet specification as per client's requirement.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of ACEPL.

### Key Rating Drivers

#### Strengths

##### • Extensive experience of promoters and their established presence in 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 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.

Acuité believes that the group will continue to benefit from the promoters' experience and established track record of operations in improving its business risk profile over the medium term.

##### • Increase in total operating income in FY21

The company witnessed significant increase in total operating income, from Rs.214.36 crore in FY20 to Rs.292.28 crore in FY21 (Provisional), (hereafter referred as FY21), registering y-o-y growth of 36.35%. The company derived revenue from exports to the tune of Rs.282.91 crore in FY21 against Rs.206.02 crore in FY20 with growth of 37.32%. The company derives major portion of revenue from port-to-port business, wherein the goods are exchanged from one source to other directly. Further, ACEPL also generated revenue through commission which increased to Rs.9.01 crore in FY21 from Rs.7.79 crore in FY20. In line with increase in operating revenue, the PBILDT level also increased from Rs.5.33 crore in FY20 to Rs.7.19 crore in FY21. The PAT level also increased from Rs.2.42 crore in FY20 to Rs.3.83 crore in FY21.

The PBILDT margins remained at similar level at 2.46% in FY21 against 2.48% in FY20. The PAT margins, however improved marginally from 1.13% in FY20 to 1.31% in FY21.

During Q1FY22, the company has already reported sales of Rs.97.0 crore.

#### • **Comfortable financial risk profile**

The debt profile of the company comprises of term loan (vehicle loan) and unsecured loans. The financial risk profile of the company remains at comfortable level with debt-equity ratio below unity. The debt-equity ratio remained at 0.35 times as on March 31, 2021 against that of 0.24 times as on March 31, 2020. This is due to company availing additional term loan during FY21 for the purchase of fixed assets. However, interest coverage ratio improved to 4.78 times during FY21 vis-à-vis 3.79 times in FY20 on account of increase in PBITDT level. Further, the Net cash accruals to total debt also improved to 0.77 times as on March 31, 2021 against that of 1.00 times as on March 31, 2020, due to increase in net cash accruals. The Total Outstanding Liability/Tangible Net Worth also improved to 4.22 times in FY21 against 5.19 times in FY20 due to increase in tangible net worth backed by accretion of profit to reserves. Though TOL/TNW improved during FY21 but continue to remain high.

Acuité expects the financial risk profile to improve over the medium term in absence of any debt funded capex.

#### • **improved working capital management**

The company has witnessed improvement in working capital management marked by Gross Current Asset (GCA) of 93 days in FY21 compared to 120 days in FY20. The improvement in GCA is backed by improved debtor's days and low inventory days. The debtor's days improved to 81 days in FY21 against 107 days in FY20, backed by improved receivables to sales. The inventory period is at 2 days in FY21 against 3 days in FY20. The company procures raw material from market, only after receiving the order from the client. Hence, this results in negation of price risk and lower inventory level. The average working capital utilization for 12 months ending June 2021 remained at moderate level of 65%.

#### **Weaknesses**

##### • **Low profitability margins marked by trading nature of operations**

ACEPL's operating margin have shown even trend during FY19-FY21 in range of 2-3%. The lower margins are mainly on account of trading nature of business and competitive industry limiting the bargaining power with the customer.

#### **Rating Sensitivities**

- Improving scale of operations while improving profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

#### **Material Covenants**

None

#### **Liquidity Position: Adequate**

The company has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company reported net cash accruals of Rs. 5.05 crore in FY21 against debt repayment of Rs.0.61 crore. The company is expected to generate net cash accruals between Rs.6.0 crore to Rs.10.0 crore in FY22-24 against debt obligation of Rs.0.60 crore to Rs.0.77 crore during the said period. The company also had cash and bank balance of Rs.9.56 crore as on March 31, 2021 (Prov.). The current ratio of the firm stood at 1.15 times as on March 31, 2021. Acuité believes that the liquidity of firm is likely to remain adequate over the medium term on account of comfortable cash accruals against the repayment obligations over the medium term. The average fund based utilization for past 12 months ending June 2021 remained at moderate level of 65%.

#### **Outlook: Stable**

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability margins, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

### About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	292.28	214.36
PAT	Rs. Cr.	3.83	2.42
PAT Margin	(%)	1.31	1.13
Total Debt/Tangible Net Worth	Times	0.35	0.24
PBDIT/Interest	Times	4.78	3.79

**Status of non-cooperation with previous CRA (if applicable)-**CRISIL vide its Press Release dated July 15, 2020 placed the rating at CRISIL B+/Stable and 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>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading entities <https://www.acuite.in/view-rating-criteria-61.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. Cr.)	Ratings/Outlook
14-May-2020	FBP/FBD/FBN	Long Term	5.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Reaffirmed)
07-Mar-2019	FBP/FBD/FBN	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Assigned)

### \*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	FBP/FBD/FBN	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Upgrade)
Proposed Short Term Bank Facility		Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ (Upgrade)
Bank of Baroda	Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Upgrade)

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+ (Upgrade)

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### About Acuité Ratings & Research:

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