

Press Release

ABC Chemical Exports Private Limited

November 02, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.25	-	ACUITE A3+ Reaffirmed
Bank Loan Ratings	5.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.25.25 crore bank facilities of ABC Chemical Exports Private Limited (ACEPL). The outlook is '**Stable**'.

Rationale for Rating Re-affirmation

The rating has been reaffirmed basis the experienced management and augmentation in business risk profile of the company. The company's operating income improved to Rs. 390.82 Cr in FY22(Prov.) as against Rs. 299.76 Cr in FY21. The rating also factors in the moderate financial risk profile of the company on account of moderate networth which stood at Rs. 27.33 Cr as on March 31, 2022(Prov.). However, the company has low gearing level and comfortable debt protection metrics. The company's overall gearing stood at 0.33 times as on March 31, 2022(Prov.) as against 0.37 times as on March 31, 2021. The rating, however, remains constrained on account of working capital intensive operations of the company and low profitability margins on account of trading nature of business.

About the Company

Maharashtra based ABC Chemical Exports Private Limited was incorporated in 1997 and is promoted by Mr. Hiroo Thadani and Mr. Vijay Thadani. The company is primarily 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 offices India, USA, China, Egypt, UAE, Nigeria and Thailand.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensive experience of the 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. The operating income improved to Rs. 390.82 Cr in FY22(Prov.) as against Rs. 376.22 crore in FY21. The company has generated a revenue of approx. Rs. 164 Cr in 5 months period ended August, 2022.

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

- **Moderate Financial Risk Profile**

The financial risk profile of the company is moderate marked by moderate net worth, low gearing and comfortable coverage indicators. The tangible net worth of the company improved to Rs. 27.33 Cr. as on March 31, 2022 (Prov.) as against Rs. 20.06 Cr. as on March 31, 2021. The improvement in net-worth is primarily due to accretion of profits to reserves. The total debt of the company stood at Rs. 9.02 Cr as on March 31, 2022 which included Rs. 4.04 Cr of long term borrowings, Rs. 1.87 Cr of unsecured loans and Rs. 3.11 Cr of short term borrowings. The gearing level of the company remained low at 0.33 times as on March 31, 2022(Prov.) as against 0.37 times as on March 31, 2021. The TOL/TNW stood at 4.96 times as on March 31, 2022(Prov.) as against 5.10 times as on March 31, 2021. The Interest Coverage Ratio (ICR) improved to 5 times in FY22(Prov.) as against 4.67 times in FY21. The NCA/TD improved to 0.92 times in FY22(Prov.) as against 0.87 times in FY21.

Acuité expects the financial risk profile to remain moderate over the medium term in absence of any debt-funded capex plan over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

The operations of the company are working capital intensive marked by Gross Current Asset (GCA) days of 126 days as on March 31, 2022(Prov.) as against 117 days as on March 31, 2021. The GCA days are driven by debtor days. The debtor days deteriorated and remained high at 109 days as on March 31, 2022(Prov.) as against 100 days as on March 31, 2021. Furthermore, there were some delay in realisation from one of the customer during current financial year till August' 2022 period. The average utilisation of non-fund based limits availed by the company remained high at around 97-100 percent for last six months period ended Oct'22. However, the average utilization of the fund based bank limits company remained low at approx. 10-15 percent for last six months period ended Oct' 22.

Acuité expects the working capital operations of the company to remain intensive over the medium term

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

ACEPL's have lower operating margins mainly on account of trading nature of business and competitive industry limiting the bargaining power with the customer. The operating profit margin stood at 3.24 percent in FY22(Prov.) as against 3.30 percent in FY21.

Rating Sensitivities

- Improvement in scale of operations and profitability
- Elongation of working capital cycle

- Deterioration in liquidity position

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the company remains adequate reflected by adequate net cash accruals against maturing debt obligations. The net cash accruals of the company stood at Rs. 8.27 Cr. in FY22(Prov.) and Rs. 6.48 Cr in FY21 against debt obligations of Rs. 1- 1.5 Cr. for the same period for the same period. Going forward, the company is expected to generate net cash accruals of Rs. 9-10 Cr. in FY23-24 as against maturing debt obligations of Rs. 1-2 Cr. for the same period. The average utilisation of non-fund based limits availed by the company remained high at around 97-100 percent for last six months period ended Oct'22. However, the average utilization of the fund based bank limits company remained low at approx. 10-15 percent for last six months period ended Oct' 22. The unencumbered cash and bank balance stood at Rs. 4.91 crore as on March 31, 2022(Prov.). The current ratio stood at 1.63 times as on March 31, 2022(Prov.).

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	390.82	299.76
PAT	Rs. Cr.	7.27	5.30
PAT Margin	(%)	1.86	1.77
Total Debt/Tangible Net Worth	Times	0.33	0.37
PBDIT/Interest	Times	5.00	4.67

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

Crisil downgraded the rating at CRISIL B+/Stable and CRISIL A4 Issuer Not Cooperating on account of lack of adequate information required for monitoring of ratings

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Aug 2021	Bank Guarantee	Short Term	0.25	ACUITE A3+ (Upgraded from ACUITE A3)
	Bills Discounting	Long Term	5.00	ACUITE BBB- Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	12.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
14 May 2020	Letter of Credit	Short Term	12.00	ACUITE A3 (Reaffirmed)
	Bills Discounting	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Reaffirmed)
07 Mar 2019	Letter of Credit	Short Term	12.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	8.00	ACUITE A3 (Assigned)
	Bills Discounting	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+ Reaffirmed
Bank of Baroda	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3+ Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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