

Press Release

Kent Chemicals Private Limited

September 27, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 27.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 27.00 crore bank facilities of KENT CHEMICALS PRIVATE LIMITED. The outlook is '**Stable**'.

Jaipur-based, Kent Chemicals Private Limited (KCPL) was incorporated in 2004 by Mr. Ankur Sachdeva. The company started its operations in 2006 with the trading of liquid paraffin. In 2012, the company commenced the manufacturing of liquid paraffin in its manufacturing plant located in Bagru, Jaipur. The manufacturing unit has an installed capacity to manufacture 36,000 MTPA with ~35 per cent utilization.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KCPL to arrive at the rating

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

KCPL has been in operations since 2006. Its promotor, Mr. Ankur Sachdeva, has an experience of over a decade in the chemical industry. The company started with trading of liquid paraffin and in 2012, the company went with a backward integration and started manufacturing of liquid paraffin. The long track record of operations and experience of the management have helped the company develop healthy relationships with its customers and suppliers. Acuite believes that KCPL will sustain its existing business profile on the back of established track record of operations and experienced management.

• Moderate working capital operations

KCPL's working capital operations are moderate marked by moderate GCA of 136 days for FY2019 as against 110 days in the previous year. This is mainly due to inventory of 72 days for FY2019 as against 50 days for FY2018. The debtors stood at 63 days for FY2019 as against 46 days for FY2018. Further, the bank limit utilization stood at ~ 84.31 per cent for six months ended July 2019.

Weaknesses

• Average financial risk profile

The financial risk profile of KCPL is average marked by low net worth, moderate gearing and moderate debt protection metrics. The net worth of the company stood low at Rs. 6.32 crore as on 31 March, 2019 as against Rs. 4.30 crore as on 31 March, 2018. The total debt of Rs. 12.61 crore as on 31 March, 2019 comprises of Rs. 1.50 crore of long term debt and Rs. 11.11 crore of short term borrowings. The gearing stood at 1.99 times as on 31 March, 2019 as against 1.68 times as on 31 March, 2018. The interest coverage ratio stood at 3.13 times as on 31 March, 2019 as against 2.85 times as on 31 March, 2018. The net cash accruals of the company stood at Rs. 2.44 crore against a debt obligation of Rs. 0.49 crore for the same period. Further, the rating is constrained by high Total Outstanding Liabilities to Total Net Worth (TOL/TNW) ratio of 5.68 times as on 31 March 2019, which has deteriorated from 3.61 times as on 31 March, 2018. This is mainly due to high usance of standby line of credit as on 31 March, 2019 as compared to previous year. Acuite believes that the financial

risk profile of the company is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

• **Susceptibility of margins to fluctuations in raw material margins and foreign exchange fluctuations**

KCPL is engaged in manufacturing and trading of liquid paraffin, which is produced using various petroleum waxes, imported majorly from South Korea (around 88 per cent). The prices of petroleum waxes depend on crude oil prices, which are highly fluctuating in nature. Further, the company imports the raw materials and sells its products in the domestic market. Fluctuations in the input costs and exposure to forex risk impact the margins. However, this risk is mitigated as the company is able to pass on these fluctuations to its customers. The operating margins of the company stood at 4.90 per cent in FY2019 against 5.55 per cent in FY2018.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs.100.00-110.00 crore) while maintaining profitability margin of around 5-5.50 percent over the medium term.
- Significant buildup in inventory or debtor collection period will impact the liquidity of the company.

Material Covenants

None

Liquidity Position

KCPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.44 crore for FY2019 against Rs. 0.49 crore of maturing debt obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 3.00 crore to Rs. 4.00 crore during 2020-22 against Rs. 0.36 crore of debt obligation for the same period. The company has moderate working capital operations as marked by GCA days of 136 days for FY2019. The company maintains unencumbered cash and bank balances of Rs. 0.07 crore as on 31 March, 2019. The current ratio stood at 1.12 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that the outlook on KCPL will remain 'Stable' over the medium term on account of its promoter's extensive experience in the industry and established presence in the north. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability, while maintaining comfortable liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity or financial risk profile on account of large working capital requirements or low net cash accruals.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	86.79	51.62	49.79
EBITDA	Rs. Cr.	4.25	2.86	2.51
PAT	Rs. Cr.	2.02	1.02	0.52
EBITDA Margin	(%)	4.90	5.55	5.05
PAT Margin	(%)	2.32	1.99	1.05
ROCE	(%)	27.97	19.84	15.35
Total Debt/Tangible Net Worth	Times	1.99	1.68	3.26
PBDIT/Interest	Times	3.13	2.85	2.00
Total Debt/PBDIT	Times	2.69	2.41	3.98
Gross Current Assets (Days)	Days	136	110	122

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

ICRA, vide its press release dated July 19, 2019 had denoted the rating of Kent Chemicals Private Limited as 'ICRA BB-/Stable/ICRA A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Further, CRISIL, vide its rationale dated Feb 22, 2019 has denoted the rating of Kent Chemical Private Limited 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-17.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>

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	11.50*	ACUITE BB- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.00#	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- / Stable (Assigned)

* 50% one-way interchangeability from FBWC to NFBWC.

Fully interchangeable with standby line of credit (SBLC).

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Priyal Jain Analyst - Rating Operations Tel: 022-49294043 priyal.jain@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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