

Press Release

Rishabh Metals and Chemicals Private Limited

August 08, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	7.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	30.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB+**' (read as ACUITE triple B plus) and the short term rating to '**ACUITE A2**' (read as ACUITE A two) on the Rs. 30.00 crore bank facilities of Rishabh Metal and Chemicals Private Limited (RMCPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating derives comfort from long track record of operations, healthy financial risk profile marked by low gearing along with healthy debt-coverage indicators and sufficient liquidity. Further, the rating continues to draw comfort from extensive experience of promoters in the chemical industry, its strong R&D Department and reputed as well as diversified product range and customer base across various industries. On the contrary, the ratings are constrained on account of moderate net worth, intensive working capital operations marked by marginal stretch in the receivables during FY2022 & susceptibility of profits to volatile prices of raw material and forex rates.

About Company

Incorporated in 1983, RMC is a Mumbai-based company promoted by Mr. Ashesh Jain and Mrs. Madhu Jain. The company is engaged in manufacturing of specialty chemicals and water-soluble polymers which finds applications in Water and Waste Water treatment, Paper, Textiles, Pharmaceuticals, Oil & Gas, Mining & Metallurgical, Sugar industry etc. The company runs an ISO:9000-accredited manufacturing facility at Jalgaon, Maharashtra with an installed capacity of 4200 MTPA

About the Group

Rishabh Group is promoted by Mr. Ashesh Jain who possess experience for almost nearly two decades in speciality chemical industry. RMC is engaged in manufacturing of speciality chemicals and watersoluble polymers which finds applications in various industry. SCPL is the largest manufacturer of Methyl Salicylate & Salicylic Acid derivatives in India. The group has its manufacturing facility located in Jalgaon, Maharashtra.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has taken consolidated view on the business and financial risk profile of RMC and SCPL together referred to as 'Rishabh Group' to arrive at the rating. The consolidation is in view of common management and cross guarantee given.

Key Rating Drivers

Strengths

Experienced management and long track record of operations

Rishabh group has presence in specialty chemicals industry since 1975. The group is operated and managed by Mr. Ashesh Jain who has experience of nearly two decades in the aforementioned industry. SCPL is engaged in manufacturing of Methyl Salicylate & other salicylic acid derivatives. The group set up its other company RMC in 1983 and it is engaged in manufacturing of specialty chemicals and water-soluble polymers. RMC manufactures range of specialty chemicals and watersoluble polymers like wet strength resins, poly amide resin, poly DCDA resins and blends of organic and inorganic coagulants. Further, various range of products the group deals into, finds applicability in various industries such as pharmaceuticals, flavour & fragrances, cosmetics, water and waste water treatment, paper, textile, sugar etc.

Acuité believes that the group will continue to benefit from its experienced management and established track record in maintaining long standing relations with its customers and suppliers.

Healthy financial risk profile

The financial risk profile of the group is healthy marked by moderate net worth, low gearing levels and healthy debt coverage indicators. The tangible net worth of the group is moderate at Rs. 67.63 crore as on March 31, 2021 (Prov.) as against Rs. 53.68 crore as on March 31, 2021. The net worth levels have seen improvement from FY2020 to FY2021 on account of higher ploughing back of profits in form of retained earnings. The group has a healthy gearing of 0.45 times as on 31st March 2022 (Prov.) as against 0.41 as on 31st March 2021. Going forward, in absence of any additional debt, the gearing is expected to further improve & remain in the range of 0.31-0.25 times during FY2023 & FY2024 as the group has paid off all its long term debt during FY2022. Total outside liabilities to tangible net worth (TOL/TNW) levels improved and stood at 1.25 times as on March 31, 2022 (Prov.) against 1.35 times as on March 31, 2021. The company's debt coverage indicators have stood moderate with interest coverage ratio of 9.14 times during FY2022 (Prov.) against 6.80 times and DSCR of 2.36 times during FY2022 (Prov.) against 5.38 times in FY2021.

Acuité believes that the financial risk profile of the group will continue to remain healthy on account of group's conservative leverage policy and healthy debt protection metrics.

Weaknesses

Stagnating operational performance

The group has reported operating income of Rs. 310 Cr in FY2022 (Prov.) as against Rs. 266 Cr in FY2021. The growth is largely contributed by the increase in the prices across the specialty chemical industry. The total quantity sold by the group on consolidated level during FY2022 stood at 10,786 Kg against 11,186 Kg in FY2021 and 10,729 Kg in FY2020. Hence there has been a deterioration of around 7% in the overall quantity sold during FY2022 from its previous year and the growth in the revenues is largely driven by increase in prices. However, it is evident from the EBITDA margins that company has been able to pass on the pricing to its customers. The operating margins have been on an increasing trend from 5.99% in FY2020 to 7.06% in FY2021 and 7.80% in FY2022 (Prov.) The group has also diversified into many other

products with higher margins which has helped them in maintaining stable margins.

Susceptible to fluctuation in prices of raw material and forex rates

The group's revenues and profitability remain susceptible to the cost of raw materials. The group's total raw material cost constitutes around ~80 percent of total sales. Major raw materials required by the group are monomers like dimethylamine, diethylamine, etc. which are 50 percent imported and 50 percent domestically procured. The group's profitability is exposed to adverse fluctuations in prices of these raw materials. However, given the group's established market position, it has been able to transfer the prices to the customers to some extent marked by its stable operating margins. Further, the group faces foreign exchange fluctuation risk as the group's average exports are around 30 percent. However, the forex risk is mitigated to an extent by a way of forward contract which acts as a natural hedge.

Marginal deterioration in working capital operations

Working capital operations have marginally deteriorated as evident from gross current assets (GCA) of 99 days for FY2022(Prov.) from 90 days for FY2021. The increase in GCA days is mainly contributed by increase in the inventory days. The inventory days stood at 30 during FY2022 (Prov.) against 17 during FY2021. The company has been securing more inventory from previous year in order to have ready availability of raw materials in case of any unforeseen situations like covid which has increased its dependability on packing credit limits. Further, the debtors during FY2022 have increased marginally marked by debtor days of 54 during FY2022 against 47 in the year FY2021. The group's six month working capital utilisation as on March 2022 has been at around 70-75%.

Rating Sensitivities

- Significant improvement in the scale of operations while maintaining the profitability.
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Liquidity Position Strong

The group has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals to the tune of Rs. 17 Cr. against obligations close to Rs. 5.05 Cr. depicting sufficient cushion between the accruals and the repayments. Going ahead, the group is expected to maintain accruals in the range of Rs. 18-20 Cr. during FY2023 & FY2024. Further, the group has made investments in short term liquid funds and has been able to take arbitrage benefit. The group has unencumbered cash and bank balances of around Rs. 10 crore as on 31st March 2022 and short term liquid investment in mutual fund of Rs. 12.25 Cr during FY2022. Further, the fundbased working capital limits of Packing Credit for SCPL are almost fully utilised, given the lower interest rate benefits while the non-fund based working capital limits are utilised at an average of 62% for the last six months ending March 2022. Further, for RMC the average utilisation for the fund based facility stood at around 43% and average utilization for non-fund based facility stood at around 71% for the last six months ending March 2022.

Outlook:

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on account of sustainable revenue growth over the years, its experienced management, comfortable financial risk profile of the group, and its strong R&D Department. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability along with sustainable increase in its capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile and liquidity profile most likely as a result of higher than the envisaged working capital requirements.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	310.26	266.45
PAT	Rs. Cr.	14.30	11.80
PAT Margin	(%)	4.61	4.43
Total Debt/Tangible Net Worth	Times	0.45	0.41
PBDIT/Interest	Times	9.14	6.80

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Aug 2021	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Letter of Credit	Short Term	7.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	17.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Working Capital Term Loan	Long Term	0.50	ACUITE BBB+ Stable (Assigned)
01 Sep 2020	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Long Term	18.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	7.00	ACUITE A3+ (Upgraded from ACUITE A3)
19 Feb 2020	Proposed Bank Facility	Long Term	18.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A2 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE BBB+ Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.50	ACUITE BBB+ Stable 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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