Press Release

Heetu Chemicals And Alkalies Limited

February 28, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 17.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** on the Rs. 17.50 crore bank facilities of HEETU CHEMICALS AND ALKALIES LIMITED (HCAL). The outlook is **'Stable'**.

Incorporated in 1990, HCAL is a Mumbai-based company promoted by Mr. Vivek Shah and Mrs. Sujata Shah. The company is engaged in trading of industrial chemicals, oil field chemicals and speciality chemicals which finds application in oil and gas, agrochemicals, textiles and water treatment industries among others. The company derives 95 percent of its revenue from trading and remaining 5 percent is derived from manufacturing of few formulations and chemicals.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of HCAL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The company has an established track record of more than two decades of operations in chemical industry. The key promoter, Mr. Vivek Shah has been associated with this industry for almost three decades. The Directors of the company, Mr. Ravi Barkuta, Mr. Bharat Bhosale, Mr. Santosh Digamber and Mr. Subhash Dhuru possess experience of two decades in this industry. Acuité believes that HCAL will benefit from experienced management which will help the firm to maintain long standing relations with reputed customer such as Oil and Gas Corporation of India, Rallis India Limited, West Coast Paper Mills Private Limited, Municipal Corporation of Greater Mumbai among others and suppliers such as Gujarat Chemicals and Alkalies Limited and Dow Chemicals Company among others.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by tangible net worth of Rs.12.29 crore as on 31 March, 2019 as against Rs.10.93 crore as on 31 March, 2018. The gearing (debt- equity) remained comfortable at 0.66 times as on March 31, 2019 against 0.87 times as on March 31, 2018. The total debt outstanding of Rs.8.11 crore as on 31 March, 2019 consists entirely of working capital borrowing. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) at 2.74 times and 2.32 times respectively in FY2019. Total outside liabilities to tangible net worth stood at 3.76 times as on 31 March, 2019 as against 3.73 times as on 31 March, 2018. Acuité believes that absence of any further significant capex plans is expected to support the financial risk profile in near to medium term.

Weaknesses

- **Increasing revenue trend with thin profitability**

The company's revenue grew at a CAGR of ~14 percent over the last three years through 2017-19. HCAL has increasing revenue trend marked by operating income of Rs.178.31 crore in FY2019 as against Rs.167.31 crore in FY2018 and Rs.137.14 crore in FY2017. The company's operating margins stood thin at 1.63 percent in FY2019 as against 1.41 percent in FY2018 and 1.88 percent in FY2017. Further, the company reported Profit after Tax (PAT) margins of 0.71 percent in FY2019 as against 0.47 percent in FY2018 and 0.63 percent in FY2017. The company has thin profitability on account of trading nature of business. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

- **Moderate working capital operations**
  The company has moderate working capital operations marked by Gross Current asset (GCA) of 108 days for FY2019 as against 98 days for FY2018. This is majorly on account of collection period of 86 days in FY2019 as against 87 days in FY2018. The inventory holding period stood at 15 days in FY2019 as against 7 days in FY2018. The increase in inventory days is on account for additional inventory being imported for speciality chemicals. Acuité believes that the ability of the company to efficiently manage its working capital requirements will remain key rating sensitivity.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 150-200 days.
- Sustained improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. HCAL generated cash accruals of Rs.1.0-1.29 crore during the last three years through 2017-19, while the maturing debt obligations were nil over the same period. Further, the cash accruals are expected to be at Rs.1.5-2.1 crore during 2019-21 with no repayment obligation. HCAL maintains cash and bank balances of Rs.0.02 crore as on March 31, 2018. The cash credit limit in HCAL remains utilised at 70 per cent during the last 6 months period ended June, 2019. The current ratio stood comfortable at 1.20 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to be adequate over the medium term on account of no capex and no long-term debt obligation.

Outlook: Stable

Acuité believes that HCAL's outlook will remain 'Stable' over the medium term from its experienced management with moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	178.31	167.31
PAT	Rs. Cr.	1.26	0.78
PAT Margin	(%)	0.71	0.47
Total Debt/Tangible Net Worth	Times	0.66	0.87
PBDIT/Interest	Times	2.74	3.08

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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/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
Stand by Line of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB /Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.41	ACUITE BB /Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	2.09	ACUITE BB /Stable

Line of credit of Rs.15.00 crore includes sublimit Cash Credit of Rs.7.00 crore, Working Capital Demand Loan of Rs.7.00 crore, Letter of Credit of Rs.11.00 crore and Bank Guarantee of Rs.11.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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