

Press Release

Shiv Texchem Private Limited

April 19, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.12.50 Cr bank facilities of Shiv Texchem Private Limited (STPL). The outlook is '**Stable**'.

Shiv Texchem Private Limited is a Maharashtra based company incorporated in the year 2005. The company is promoted and managed by Mr. ShyamSundar Chokhani, Mr. Hemanshu Chokhani and Mr. Vikas Pavankumar. From the year 1995, the company has been engaged as a bulk chemical distributor under a proprietorship firm. However, later in the year 2005, the constitution of the company was changed into private limited. The company operates in Pan India basis thus mitigating any instance of geographical concentration risk. The company currently trades in chemicals like sulphuric acid, acetone, phenol, oleum, alkalis, methanol, IPA and other related chemicals to name a few. The company is a dealer for Birla Copper for Sulphuric Acid and presently is the largest distributor of sulphuric acid in India. The company is also a dealer for Deepak Phenolics & HOCL for phenol, acetone, IPA, etc. Further, they are also dealer for Grasim, Shriram Alkali, Meghmani, Nirma and Kutch Chemical Industries for Chloro Alkali Products among others. For import of bulk chemicals, the company has tied up with various large chemical suppliers, including but not limited to Vinmar Overseas, Tricon, Qatar-Petrochem, etc.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of STPL to arrive at this rating.

Key Rating Drivers

Strengths

- Established track record of operations, experienced and qualified management and reputed clientele profile

STPL started its operation in the year 1995 as a proprietorship concern. Later in the year 2005, the constitution of the firm was changed into private limited company. The company has an established track record of operation of almost three decades in the chemical industry. The company is promoted and managed by Mr. Shyamsunderji Chokhani, Mr. Hemanshu Chokhani and Mr. Vikas Pavankumar. The extensive experience of Mr. Shyamsunderji of about five decades and the able assistance from the second line of management who have experience of almost a decade has helped the company to maintain a healthy relationship with its customer and suppliers. The company being associated as a dealer for Birla Copper, Deepak Phenolics, Grasim and Shriram Alkali to name a few has helped the company to mitigate any instance of geographical or customer concentration risk. The company has reputed clientele profile which includes names like Deepak Nitrite Limited, Gujarat Fluorochemicals, Coromandel International, reliance Industries, Lupin and Bhageria Industries Limited to name a few. The extensive experience of the promoters has helped the company in FY2021 to have an understanding with Qatar Petrochem, ICC Chemicals, Kempar Energy, etc., for distributing their solvents and petrochemicals in India.

Acuité believes that the company will benefit from its experienced management, long track of operation, long standing relationships with reputed customers and suppliers, enhanced product portfolio and the recent arrangements with foreign suppliers.

- **Healthy financial risk profile**

STPL's financial risk profile is healthy marked by moderate net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.24.38Cr as on March 31, 2020 as against Rs.19.73Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020. This is on account of healthy accretion to reserves over the period and infusion of capital by the promoters of the company. The company has followed conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 1.21 times and 1.41 times respectively as on March 31, 2019. The gearing has improved and stood low at around 0.64 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 0.76 times as on March 31, 2020. The company on the other hand generated cash accruals of Rs.4.67Cr in FY2020 as against Rs.4.86Cr in FY2019.

The revenue of the company has declined by around 18.13 percent to Rs.170.33Cr in FY2020. The decline in the operating income is due to decline in the price of the products; however, in terms of sales volume it has improved in FY2020 as against FY2019. The prices of the products fluctuate majorly on account of demand and supply. Crude is a barometer for majority of their products thus variation in crude oil prices have impact on the products. The selling expense of the company remains high on account of higher carrying and forwarding charges. Since the products are in the form of bulk liquid, storing them is not feasible so these products are directly transferred from the point of the manufacturer/port to the customer. EBITDA in absolute term had been showing improvement for the last three years; however, in FY2020 it declined to Rs.8.89Cr as against Rs.9.87Cr in FY2019 on account of volatility in raw material price. PAT of the company marginally declined to Rs.4.65Cr in FY2020 as against Rs.4.84Cr in FY2019. The profitability margin of the company has been improving for the last three years under the study. The operating margin and the PAT margin stood at 5.22 percent and 2.73 percent respectively in FY2020 as against 4.74 percent and 2.32 percent respectively in FY2019.

The moderate profitability level, coupled with low debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.30 times and 3.30 times respectively as against 0.20 times and 3.15 times in FY2019, respectively. The debt service coverage ratio stood 2.72 times in FY2020 as against 2.54 times in FY2019. The Debt- EBITDA ratio stands at 1.75times in FY2020 against 2.41times in FY2019.

The company has already booked revenue of Rs.275.97Cr (Est.) for 10 months in FY2021. The company's performance was subdued in the initial few months of FY2021 in view of Covid-19 pandemic. However, the sales has picked up from Q2 onwards due to increase in the demand of the products from their existing customer base as well as due to increase in the commodity price across the globe.

Acuité believes the financial risk profile of the company will continue to remain healthy on account of its healthy revenue growth backed by increase in the demand of the products, improving operating margins, healthy cash accruals and no major debt funded capex in near to medium term.

- **Working capital operation is efficient in nature**

STPL's working capital operation is efficient in nature as it is reflected by its gross current asset (GCA) days of around 89 days in FY2020 as against 82 days in FY2019. The GCA remains marginally on a higher side on account of GST. As the company directly transfers the products from the point of manufacturer/port to the customer, it helps the company to mitigate any kind of inventory holding risk which helps the company to efficiently manage its working capital management. As on March 31, 2020, the debtor collection period and the credit payment period stood at 87 days and 2 days respectively. The average bank limit utilization stood moderate at around 74.05 percent for six months ended December 31, 2020, while its peak utilization was high at around 94.00 percent during the same period.

Acuite believes that the working capital management to remain efficient over the medium term on account of low debtor collection period and credit payment period.

Weaknesses

- **Susceptibility of operating performance to input price volatility and increasing competition**

The prices of the chemicals are highly volatile in nature as it depends majorly on the demand and supply during the same period; so any adverse movement in the chemical prices can impact the profitability of the company as volumes may increase or decrease. The company imports the products from overseas suppliers which have helped the company in improving its revenue; however, the company is exposed to forex risk. To mitigate the forex exposure to a larger extent, the company will be hedging under the forward contract limits. Further, the chemical industry is highly fragmented with several organized and unorganized players which may limit the price flexibility of the company. However, this risk is mitigated to a larger extent on account of bulk discounts, larger size of operations and extensive experience of the promoters. Further, the price risk is low as the company does not stock the goods and rather carries out a back to back sale on confirmed orders.

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.67Cr in FY2020, while its' maturing debt obligation were nil for the same period. The cash accrual of the company is estimated to remain around Rs.7.00Cr to Rs.20.00Cr during 2021-23 against repayment obligations of around Rs.1.00Cr to Rs.2.00Cr during the same period. The company's working capital operation is efficient in nature marked by the Gross Current Asset (GCA) days of 89 days in FY2020 as against 82 days in FY2019. The average bank limit utilization stood moderate at around 74.05 per cent for six months ended December, 2020. The company maintains unencumbered cash and bank balances of Rs.0.03Cr as on 31 March 2020. The current ratio of the company has improved to 2.28 times as on 31 March 2020 from 1.76 times as on March 31, 2019. Further, the promoters of the company have infused an additional capital of Rs.25.00Cr in FY2021 which will further aid the liquidity of the company.

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.

Rating Sensitivities

- Decline in the profitability levels will impact the company's debt coverage indicators
- Any deterioration in the working capital cycle may impact the financial risk profile

Outlook: Stable

Acuite believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while maintaining as sustained operating margins at its current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	170.33	208.05
PAT	Rs. Cr.	4.65	4.84
PAT Margin	(%)	2.73	2.32
Total Debt/Tangible Net Worth	Times	0.64	1.21
PBDIT/Interest	Times	3.30	3.15

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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/view-rating-criteria-55.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
Channel Financing	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Assigned)

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About Acuite Ratings & Research:

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