

Press Release

Pharmachem Industries Gujarat Private Limited

January 24, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

ACUITE has assigned its long-term rating of '**ACUITE BB-'** (read as **ACUITE double B minus**) on the Rs.10 Crore bank facilities of Pharmachem Industries Gujarat Private Limited (PIGPL). The outlook is '**Stable**'.

Rationale for Rating

The rating assigned reflects the extensive experience of management along with established track records and improvement in revenue in FY 2022 to Rs 108.38 crore as against Rs 47.83 crore in previous year. However, the above mentioned strengths are constrained by the stretched working capital cycle of the company along with low margins and average financial risk profile of the company.

About the Company

Gujarat based Pharmachem Industries Gujarat Private Limited was incorporated in 1995. The company is engaged in the business of manufacturing specialty chemicals. Currently the company is being handled by Mr. Bhaskar Mansukhlal Parekh, Mr. Chirag Bhaskar Parekh and Mr. Lalsingh Kanwal.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record along with experienced management

The PIGPL has an establish track record of more than 27 years in the manufacturing of specialty chemicals. The Directors of the company Mr. Bhaskar Parekh, Mr. Chirag Parekh and Mr. Lalsingh Kanwal has vast experience in the aforementioned line of business. The experience of the management has helped the company to maintain a longstanding relationship with its customers and suppliers.

Acuite believes that PIGPL will continue to benefit from its experienced management alongwith longstanding relationship with customers and suppliers.

Growth in scale of operations

The company has registered a revenue of Rs.108.38 Crore in FY22 against Rs.47.83 Crore in FY21. In FY22 the sales have increased on an account of increased capacity from 250 tons to 500 tons on monthly basis. The company has faced slowdown in sales in FY 21 due to pandemic but on the other hand, company has registered exceptional EBITDA margin at 7.12% on an account of manufacturing of sanitization product on a contract basis. However, PIGPL earned low operating margins at 2.06% in FY22 due to fluctuation in raw material prices as compared to EBITDA margin at 4.14% in FY20. Currently, the company is running on 65% capacity and is aiming to increase its capacity to 95% in succeeding years. Further, company has achieved a turnover of around Rs.100.39 Crore till November. Acuite believes that revenue of the company may further improve going forward with an increased capacity utilization.

Weaknesses

Working capital intensive operations

The working capital operations of the company are intensive marked by gross current assets(GCA) days of 62 days in FY2022 against 67 days in FY2021. The decline in GCA Days are on account of decrease in inventory days from 51 days to 25 days which were high on an account of pandemic. Further, the creditor days of the company is at 118 days in FY2022 as against 102 days in FY2021 consists sundry creditors for capital goods for the sake of expansion. Acuite believes that working capital operations of the company may continue to remain intensive considering the nature of business.

Moderate Financial Risk Profile

The financial risk profile of the company is moderate marked by net worth of Rs.5.01crore in FY22 against Rs.4.19 crore in FY21 on an account of retention of profit in business. The total debt of the company in FY22 stood at Rs.11.50 Crore resulting in high gearing ratio of 2.30 times. Further the coverage indicators of the company remained average over the years with DSCR and ICR at 2.26 times and 4.93 times in FY22 respectively against 1.00 times and 1.58 times in FY21 respectively. Acuite expects that the debt coverage profile of the company will improve on the back of improved turnover and margins in the medium term.

Volatility in Raw Material Prices

The chemical industry is struggling with high volatility in raw material costs which can impact the margins and overall profitability of the company to an extent. However, the ability to pass on volatilities can help the company to mitigate this ongoing risk associated with the business.

Rating Sensitivities

- Improvement in revenue and profitability going forward.
- Elongation in working capital cycle resulting in stretch of liquidity

Material covenants

None.

Liquidity Position Adequate

The liquidity profile of the company is adequate and marked by net cash accruals of Rs. 1.69 Crore against the debt repayment obligation of Rs.0.46 Crore in the same period. The company is expected to generate a net cash accruals under the range of Rs.2.5 Crore going forward against the maturing debt obligations in the range of Rs. 1.5 Crore during the same tenure. However, the current ratio of the company remains below unity at 0.74 times in FY 2022 as against 0.65 times in FY 2021. The company is having an overdraft facility against the inventories and book debts with an average utilisation at 70%.

Outlook: Stable

Acuité believes that PIGPL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters, adequate financial risk profile and healthy revenue visibility due to new in-house structure set up by them. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower than anticipated cash accruals, most likely due to significant debt-funded capex or any significant withdrawal of capital, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	108.38	47.83
PAT	Rs. Cr.	0.82	0.55
PAT Margin	(%)	0.76	1.16
Total Debt/Tangible Net Worth	Times	2.30	0.91
PBDIT/Interest	Times	4.93	1.58

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.95	ACUITE BB- Stable Assigned
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	3.44	ACUITE BB- Stable Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.61	ACUITE BB- Stable Assigned

Contacts

Analytical	Rating Desk
Depanshi . Analyst-Rating Operations Tel: 022-49294065 depanshi.mittal@acuited.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuited.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuited.in) for the latest information on any instrument rated by Acuité.