

February 04, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	0.25	SMERA BB-/Stable (Assigned)
Letter of Credit	6.00	SMERA A4+ (Assigned)
Packing Credit	0.98	SMERA A4+ (Assigned)

SMERA has assigned ratings of '**SMERA BB-**' (**read as SMERA double B minus**) and '**SMERA A4+**' (**read as SMERA A four plus**) to the Rs.7.23 crore bank facilities of Kim Chemicals Limited (Kim). The outlook is '**Stable**'. The ratings are constrained by the company's small-scale operations and low profitability margins amidst to intense competition in the cosmetics industry. The ratings note that the company's profit margins are susceptible to volatility in raw material prices. However, the ratings are supported by the company's experienced management and low leverage (debt-equity ratio).

Kim, incorporated 1983, is a Mumbai-based company engaged in manufacturing and export of petroleum jelly, baby oil, and other cosmetics and toiletries. Kim has small-scale operations marked by revenues of Rs.17.00 crore in FY2013-14 (refers to financial year, April 01 to March 31). The company's operating profit margin is low at 2.11 per cent in FY2013-14. Kim faces intense competition from several players in the export market. The company's profit margins are moderately susceptible to volatility in base oil (raw material) prices. Prices of base oil are currently witnessing a downward trend and the corresponding impact in the company's profit margins may happen with a lag effect.

Kim benefits from its experienced management. Mr. Bhagwan Chandnani, managing director of Kim, is a first-generation entrepreneur with around three decades of experience in the company's line of business. Mr. Mahesh Chandnani, son of Mr. Bhagwan Chandnani, has around 15 years of experience in the marketing division of the company.

Kim's total debt of Rs.1.02 crore (as on March 31, 2014) comprises short-term borrowings from bank and unsecured loans from promoters. The company's leverage (debt-equity ratio) is low at 0.23 times as on March 31, 2014. Moreover, the management has a conservative leverage philosophy which is demonstrated in consistently low leverage and minimal cash credit utilisation.

Rating sensitivity factors

- Scaling up of operations while registering improvement in profit margins
- Maintaining efficient working capital management

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Outlook: Stable

SMERA believes Kim will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management and established relations with customers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's profitability, or in case of deterioration in the company's financial risk profile on account of debt-funded capex.

About the company

Kim, incorporated in 1983, is a Mumbai-based company promoted by Mr. Bhagwan Chandnani. Kim undertakes manufacturing and export of petroleum jelly, baby oil, and other cosmetics and toiletries. Kim's main export markets include USA, Bangladesh and Sri Lanka. The company has a manufacturing unit in Taloja (Maharashtra), with installed capacity of 5,000 metric tonnes per annum (MTPA) for petroleum jelly and 2,000 MTPA for baby oil.

For FY2013–14, Kim reported profit after tax (PAT) of Rs.0.15 crore on revenues of Rs.17.00 crore, as compared with PAT of Rs.0.13 crore on revenues of Rs.15.25 crore in FY2012–13. Kim's net worth stood at Rs.4.49 crore as on March 31, 2014, as compared with Rs.4.25 crore a year earlier.

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