

April 29, 2013

Facilities	Amount (Rs. Crores)	Rating
Cash Credit	7.00	<b>SMERA B-/Stable/Assigned</b>

SMERA has assigned a rating of 'SMERA B-' (read as SMERA Single B minus) to the Rs. 7.00 crores long term facility of Solvents and Chemicals (S&C). The outlook is 'Stable'. The rating is constrained by S&C's weak financial risk profile marked by high gearing level, low coverage indicators and low profitability owing to its presence in a low margin trading segment. The rating is further constrained by the firm's presence in a market with low entry barriers and a highly competitive business environment. However, the rating derives support from the rich experience of the promoter and S&C's long standing presence in the chemical trading industry.

S&C is a dealer of Bharat Petroleum Corporation Limited (BPCL) and Hindustan Organic Chemicals Limited (HOC) for its chemical products viz. Acetone, Toluene and Mineral Turpentine Oil for around three decades. These products find ready application in the paint & pharmaceutical industry. However since S&C is in the trading business, the entry barriers are low in this industry, leading to stiff competition from numerous players, thus impacting its profit margins which were just 0.23% for FY 11-12.

S&C witnessed a CAGR of 12.88% in its operating income during the period FY 07-08 to FY 11-12; however total operating income of the firm registered a 55% growth in FY 11-12, as compared to FY 10-11, primarily on account of higher number of orders received from its customers. Subsequently, in FY 12-13, dumping of chemicals by countries such as South Korea, China & others severely affected the business of S&C, thus affecting its operating income for the 9 monthly period of April to December, 2012 & it could post only Rs 33.67 crores for this period; S&C is projecting a decline in revenue of around 36% for FY 12-13 over FY 11-12.

S&C has a weak financial risk profile with low net worth and high gearing ratio of 7.03 times as on 31/Mar/2012. As on 31/Mar/2012, coverage indicators of the company are low, as interest coverage ratio and NCA/TD stands at 1.22 and 0.02, respectively.

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As is inherent in the trading business, operating margins of the company between FY 07-08 and FY 11-12 has remained low i.e. between 1.53% to 2.33% range.

### **Outlook: Stable**

S&C has a 'Stable' outlook. SMERA believes that S&C will continue to benefit from the extensive experience of its managing partner, its long standing presence in the chemical trading industry and established relationships with the suppliers and customers. However, the company's ability to improve its margin and capital structure and widen its networth base remains the key rating sensitivities.

### **About Solvents and Chemicals**

Solvents and Chemicals (S&C) was established in the year 1978 as a partnership firm by Mr. V. M. Jalaludeen and other partners. Currently, the management of S&C is vested in the hands of Mr. V. M. Jalaludeen, who has the experience of more than three decades in the chemical trading business.

S&C is engaged as a dealer of chemicals viz. Acetone, Toluene and Mineral Turpentine Oil which are used in the paint and the pharmaceutical industries. S&C purchases its products from Bharat Petroleum Corporation Limited (BPCL) and Hindustan Organic Chemicals Limited (HOC). The company sells its products through dealers and caters to various states namely: Tamil Nadu, Kerala, Andhra Pradesh and Maharashtra. The registered office of S&C is located at Kochi, Kerala and branch office is located at Coimbatore, Tamil Nadu.

For FY 11-12, S&C reported a net profit of Rs. 0.13 crores on a total income Rs. 58.95 crores, as against a net profit of Rs. 0.08 crores on a total income of Rs. 37.92 crores for FY 10-11.

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