

April 15, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan	0.31	SMERA B/Stable (Assigned)
Cash Credit	6.00	SMERA B/Stable (Assigned)
Proposed Term Loan	3.39	SMERA B/Stable (Assigned)
Proposed Cash Credit	4.00	SMERA B/Stable (Assigned)

SMERA has assigned a rating of '**SMERA B**' (read as **SMERA B**) to the Rs. 13.70 crore bank facilities of Shemrock Organics Private Limited (SOPL). The outlook is '**Stable**'. The rating is primarily constrained by SOPL's ongoing debt-funded capex, which may lead to significant deterioration in the company's debt protection metrics. The rating is further constrained by the company's small scale of operations, low net worth and working capital-intensive business. The rating factors in the susceptibility of the company's profit margins to volatility in raw-material prices and fluctuations in foreign exchange rates in a highly competitive and regulated business environment. However, the aforementioned constraints are partially offset by the company's healthy operating profit margin and experienced management.

The rating remains sensitive to the stringent pollution control norms existing in India. The company's product is categorised in the 'RED' category by the Pollution Control Board, Government of Punjab. SOPL is thus susceptible to unfavourable changes in pollution control norms.

SOPL, incorporated in 2007, is a Chandigarh-based company engaged in manufacturing and trading of chlorinated paraffin wax (CPW) and hydrochloric acid. The company is undertaking a debt-funded capital expansion of Rs.5.11 crore towards enhancement of installed capacities from 5,400 metric tonnes per annum (MTPA) to 15,000 MTPA. The capital expansion is likely to be funded through borrowed funds of Rs.3.40 crore and equity of Rs.1.71 crore. Moreover, SOPL is likely to avail additional working capital funds to the extent of Rs.4.00 crore post expansion. SMERA believes SOPL's proposed borrowings will exert intense pressure on the company's current debt protection metrics (debt-to-equity ratio of 1.81 times as on March 31, 2013 and interest coverage ratio of 2.14 times in FY2012-13). SOPL has small-scale operations reflected in revenues of Rs.17.24 crore in FY2012-13. The company's net worth is low at Rs.2.45 crore as on March 31, 2013. Further SOPL's operations are working capital-intensive; the company's cash conversion cycle is stretched at 157 days in FY2012-13 on account of high inventory holding period of 156 days.

SOPL's profit margins are susceptible to volatility in prices of raw materials inclusive of fluctuations in foreign exchange rates. The company's main raw material is paraffin oil, which is an extract of crude oil. The company is thus susceptible to adverse movements in foreign exchange rates. SOPL

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faces intense competition from several large players in the domestic chemical industry. The company is also exposed to import competition from China and Korea.

SOPL has maintained healthy operating profit margin of ~7 per cent over the last three years. The company benefits from its experienced management. Mr. G. S. Chawla, director of SOPL, has around 15 years of experience in the chemical industry.

Outlook: Stable

SMERA believes that SOPL will maintain a stable business risk profile on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues and profitability post expansion, with improvement in capital structure and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of delays in implementation of the company's expansion plans, or in case of lower-than-expected growth in revenues and profitability post expansion. The outlook may also be affected by further stretch in the company's liquidity position.

About the company

SOPL, incorporated in 2007, is a Chandigarh-based company promoted by Mr. G. S. Chawla. SOPL is engaged in manufacturing and trading of chlorinated paraffin wax and hydrochloric acid used in manufacturing of footwear and cables.

For FY2012–13, SOPL registered PAT of Rs.0.39 crore on revenues of Rs.17.24 crore, as compared with PAT of Rs.0.16 crore on revenues of Rs.12.83 crore for FY2011–12. The company's net worth stood at Rs.2.45 crore as on March 31, 2013.

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