

June 03, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	19.89	SMERA B-/Stable (Assigned)
Cash Credit	4.50	SMERA B-/Stable (Assigned)
Bank Guarantee	1.00	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA B-**' (**read as SMERA single B minus**) to the Rs.24.39 crore fund based bank facilities and a short-term rating of '**SMERA A4**' (**read as SMERA A four**) to the Rs.1.00 crore non-fund based bank facility of Aikya Chemicals Private Limited (ACPL). The outlook is '**Stable**'. The ratings are primarily constrained by the company's exposure to project execution risk. The ratings are further constrained by the company's leveraged (debt-to-equity ratio) capital structure. The ratings factor in the concerns related to the promoter's limited experience in the chemical industry. However, the aforementioned constraints are partially offset by the company's access to assured supply of raw materials. SMERA believes that timely completion of the project, efficient working capital management and comfortable profitability in the initial phase of operations will be the key rating sensitivity factors.

ACPL, incorporated in 2011, is a Gujarat-based company established to undertake the business of manufacturing manganese sulphate and ferric chloride. ACPL proposes to set up a manufacturing unit in Vadodara (Gujarat), with total installed capacity of 18,000 metric tonnes per annum (MTPA) for manganese sulphate and 21,600 MTPA for ferric chloride. The total cost of the project (including working capital requirements) is ~Rs.46.67 crore, which is likely to be funded through debt of Rs.36.67 crore (including interest-free unsecured loans of Rs.12.28 crore from promoters) and equity capital of Rs.10.00 crore. The project execution has been delayed significantly. ACPL now expects to commence commercial production by August 2014. The company's net worth is low at Rs.9.99 crore (provisional) as on March 31, 2014. ACPL's leverage (debt-to-equity ratio) stood at ~1 time (provisional) as on March 31, 2014. SMERA believes ACPL's financial risk profile will deteriorate substantially due to the large debt-funded capex. ACPL's promoters lack experience in the chemical industry. The company is thus dependent on external technical expertise.

ACPL has assured supply of raw material from its parent entity, Cube Mines and Minerals Private Limited (CMMPL), which has entered into a contract with Gujarat Mineral Development Corporation Limited (GMDC) for procuring low-grade manganese ore. CMMPL has entered into a joint venture agreement with GMDC, which shall acquire 26 per cent equity stake in ACPL.

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Outlook: Stable

ACPL's rated facilities have a stable outlook. The outlook may be revised to 'Positive' in case the company reports healthy revenues and cash accruals while managing its working capital requirements. Conversely, the outlook may be revised to 'Negative' if ACPL reports lower operating profitability, stretch in working capital cycle leading to weakening of liquidity. Timely completion of the project, efficient working capital management and comfortable profitability in the initial phase of operations will be the key rating sensitivity factors.

About the company

ACPL (formerly known as Aikya Inn Hotels & Resorts Private Limited) was incorporated in 2011 to undertake the business of manufacturing manganese sulphate and ferric chloride.

ACPL has proposed to set up a factory unit in Vadodara (Gujarat), with total installed capacity of 18,000 MTPA for manganese sulphate and 21,600 MTPA for ferric chloride.

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