August 06, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	50.36*	SMERA BBB+/Stable (Assigned)
Term Loans	12.43	SMERA BBB+/Stable (Assigned)
Proposed Term Loan	6.06	SMERA BBB+/Stable (Assigned)
Bank Guarantee	0.40	SMERA A2+ (Assigned)
Buyer's Credit	15.00	SMERA A2+ (Assigned)
Financial Guarantees and Standby Letter of Credit	20.00**	SMERA A2+ (Assigned)
Letter of Credit/Buyer's Credit	14.50***	SMERA A2+ (Assigned)
Loan Equivalent Risk	1.25	SMERA A2+ (Assigned)

**Interchangeable to the extent of Rs.9.25 crore with post shipment credit and export packing credit*
***Includes sublimit for pre-shipment finance to the extent of Rs.10.00 crore, export bill discounting to the extent of Rs.10.00 crore, credit bills negotiated to the extent of Rs.10.00 crore, import letter of credit to the extent of Rs.20.00 crore, shipping guarantee to the extent of Rs.5.00 crore, bond and guarantees to the extent of Rs.10.00 crore, short-term loans to the extent of Rs.8.00 crore and overdraft to the extent of Rs.8.00 crore*
****Includes bank guarantee as a sublimit to the extent of Rs.1.60 crore*

SMERA has assigned a long-term rating of **'SMERA BBB+' (read as SMERA triple B plus)** and a short-term rating of **'SMERA A2+' (read as SMERA A two plus)** to the abovementioned bank facilities of Prasol Chemicals Limited (PCL). The outlook is **'Stable'**. The ratings draw comfort from the company's long track record of operations, established market position and diversified clientele. The ratings also draw comfort from the environment clearance granted to the company's newly established plant. The ratings are supported by the company's above-average financial risk profile marked by comfortable net worth, moderate leverage and strong debt coverage indicators. The ratings are also supported by the company's comfortable liquidity position. However, the ratings are constrained by the susceptibility of the company's profit margins to volatility in raw material prices.

PCL, incorporated in 1992, is a Navi Mumbai-based company engaged in manufacturing of acetone and phosphorous-based compounds used in solvent-based paints, pesticides and engine oils. PCL has recently set up a phenol manufacturing plant. The company benefits from its experienced management. The promoters of PCL have around 20 years of experience in the organic chemicals industry. PCL is one of India's leading manufacturers of di-acetone alcohol and phosphorus pentasulfide. The company's diversified clientele comprises ~600 customers. PCL's revenues increased at a healthy compound annual growth rate (CAGR) of ~20 per cent over the last five years. The company's operating profit margin has increased from 6.68 per cent in FY2011–12 (refers to financial year, April 01 to March 31) to 8.27 per cent in FY2013–14.

PCL has recently received environment clearance for manufacturing phenol acetone at its newly established plant. Receipt of the aforementioned environment clearance was delayed by ~15 months; however, the delay had no adverse impact on the financial risk profile of the company. PCL's above-average financial risk profile is marked by comfortable net worth of Rs.51.65 crore (provisional) and moderate leverage (debt-to-tangible net worth ratio) of 1.08 times (provisional) as on March 31, 2014. The company's interest coverage ratio is strong at 3.45 times (provisional) in FY2013–14. PCL's comfortable liquidity position is reflected in net cash accruals to total debt (NCA/TD) ratio of 0.20 times (provisional) as on March 31, 2014. SMERA believes PCL will maintain its comfortable liquidity position over the medium term.

PCL's profit margins are highly susceptible to volatility in raw material prices. Moreover, the company's ability to maintain a comfortable liquidity position and register sustained growth in revenues and profits (post commissioning of additional capacities for di-acetone alcohol) is a key rating sensitivity.

Outlook: Stable

SMERA believes PCL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue from sale of phenol acetone while achieving sustained improvement in operating profit margin and maintaining a comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company incurs cost overruns from delays in commissioning of the phenol acetone manufacturing project, or in case of deterioration in the company's financial risk profile on account of large debt-funded capex.

About the company

PCL, incorporated in 1992, is a Navi Mumbai-based company promoted by Mr. Nishith Shah, Mr. B. K. Gupta and Mr. Gaurang Parikh. PCL manufactures acetone and phosphorous-based compounds used in solvent-based paints, pesticides and engine oils.

For FY2013–14 (as per provisional financial statements), PCL reported profit after tax (PAT) of Rs.9.99 crore on operating income of Rs.235.19 crore, as compared with PAT of Rs.5.91 crore on operating income of Rs.192.85 crore for FY2012–13. Further, the company reported operating income of ~Rs.70 crore (provisional) during the period April 2014 to June 2014. PCL's net worth stood at Rs.51.65 crore (provisional) as on March 31, 2014, as compared with Rs.42.98 crore a year earlier.

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