



SMERA RATINGS LIMITED

# Prasol Chemicals Limited (PCL)

## Rating Rationale

**October 09, 2015**

| Facilities                                      | Amount (Rs. Crore) | Ratings                        |
|---|--------------------|--------------------------------|
| Cash Credit                                     | 55.36*             | SMERA BBB+/Stable (Reaffirmed) |
| Term Loans                                      | 12.34              | SMERA BBB+/Stable (Reaffirmed) |
| Term Loan (New)                                 | 5.00               | SMERA BBB+/Stable (Assigned)   |
| Term Loan (Proposed)                            | 1.15               | SMERA BBB+/Stable (Reaffirmed) |
| Bank Guarantee                                  | 0.40               | SMERA A2+ (Reaffirmed)         |
| Buyer's Credit                                  | 15.00              | SMERA A2+ (Reaffirmed)         |
| Financial Guarantees and Standby Line of Credit | 15.00**            | SMERA A2+ (Reaffirmed)         |
| Letter of Credit/Buyer's Credit                 | 9.50***            | SMERA A2+ (Reaffirmed)         |
| Letter of Credit                                | 5.00****           | SMERA A2+ (Assigned)           |
| Loan Equivalent Risk                            | 1.25               | SMERA A2+ (Reaffirmed)         |

\* Includes sublimit of pre/post shipment finance to the extent of Rs. 39.25 Crore, Cash Credit/Pre-shipment to the extent of Rs. 20.0 Crore, working capital demand loan to the extent of Rs. 19.50 crore, Guarantees/Sight LC to the extent of Rs. 10.0 crore, Bill Discounting to the extent of Rs. 5.0 crore.

\*\*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. 15.00 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.

\*\*\*\* Fully interchangeable with Buyer's Credit. Above limit includes sublimit of Overdraft/Cash Credit to the extent of Rs. 3.00 crore and working capital demand loan of Rs. 3.00 crore.

SMERA has reaffirmed the long-term rating of '**SMERA BBB+**' (read as **SMERA triple B plus**) and short-term rating of '**SMERA A2+**' (read as **SMERA A two plus**) assigned to the Rs.110.00 bank facilities of Prasol Chemicals Limited (PCL). SMERA has also assigned the long-term rating of '**SMERA BBB+**' to the Rs.5.00 crore bank facility and short-term rating of '**SMERA A2+**' to the Rs.5.00 crore bank facility of PCL. The outlook is '**Stable**'.

The ratings continue to draw comfort from the company's long track record of operations, established market position and diversified clientele. The ratings also derive comfort from the company's healthy financial risk profile and comfortable liquidity position. The ratings factor the company's foray into manufacturing of phenol-acetone which is expected to improve the business risk profile going forward. These ratings strengths are partially offset by the susceptibility of PCL's operating profit margin to fluctuation in raw material prices and foreign exchange (forex) rates.

### Update

In FY2014-15, PCL reported profit after tax (PAT) of Rs.7.36 crore on operating income of Rs. 246.23 crore, as compared to PAT of Rs.8.48 crore on operating income of Rs.237.93 crore in the

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previous year. The company's revenues have remained stagnant because of lower realisation of its products; however there was a healthy volume growth during the same period.

PCL's operating margin has improved to 9.02 per cent in FY2014-15 vis-à-vis 8.83 per cent in the previous year on account of lower fuel cost. However, the net profit margin declined to 2.99 per cent in FY2014-15 vis-à-vis 3.57 per cent in the previous year on account of higher depreciation cost and higher provisioning of deferred tax.

PCL's net worth stood at Rs.55.70 crore and gearing at 0.94 times as on March 31, 2015. The interest coverage ratio stood at 4.37 times and ROCE at 16.20 per cent in FY2014-15. The company's working capital cycle stood at 41 days for FY2014-15 and is expected to be maintained around 45-50 days over the medium term.

### Outlook: Stable

SMERA believes PCL will continue to benefit over the medium term from its strong market position, experienced management and established relationships with customers. The outlook may be revised to 'Positive' in case the company achieves sustained improvement in profit margins while maintaining healthy revenue growth or in case of improvement in the company's capital structure or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profitability. The outlook may also be affected by deterioration in the company's capital structure on account of higher-than-expected debt-funded working capital requirements.

### Rating Sensitivity Factors

- Adverse movement in raw material prices and foreign exchange rates
- Working capital management

### 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. The company manufactures acetone and phosphorous-based compounds used in solvent-based paints, pesticides and engine oils. The company has also commenced operations in its phenol acetone unit since May, 2015.

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