



SMERA RATINGS LIMITED

Prasol Chemicals Limited (PCL)

Rating Rationale

May 18, 2016

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	3.83	SMERA BBB+/Stable (Withdrawn)
Cash Credit	13.04	SMERA A-/Stable (Assigned)
Cash Credit	55.36*	SMERA A-/Stable (Upgraded from SMERA BBB+/Stable)
Term Loan	5.45	SMERA A-/Stable (Upgraded from SMERA BBB+/Stable)
Bank Guarantee	0.40	SMERA A1 (Upgraded from SMERA A2+)
Buyer's Credit	15.00	SMERA A1 (Upgraded from SMERA A2+)
Financial Guarantees and Standby Line of Credit	15.00#	SMERA A1 (Upgraded from SMERA A2+)
Letter of Credit/Buyer's Credit	14.50@	SMERA A1 (Upgraded from SMERA A2+)
Loan Equivalent Risk	1.25	SMERA A1 (Upgraded from SMERA A2+)

*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. Limit to the extent of Rs.5.00 crore is 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 upgraded the long term rating to '**SMERA A-**' (read as **SMERA A minus**) from '**SMERA BBB+**' (read as **SMERA triple B plus**) and short term rating to '**SMERA A1**' (read as **SMERA A one**) from '**SMERA A2+**' (read as **SMERA A two plus**) on the above mentioned bank facilities of Prasol Chemicals Limited (PCL). The outlook is '**Stable**'. Also, the long-term rating of '**SMERA BBB+**' (read as **SMERA triple B plus**) on the Rs.3.83 crore loan facility has been withdrawn and '**SMERA A-**' (read as **SMERA A minus**) has been assigned to the Rs. 13.04 crore bank loan facility.

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The rating upgrade is in view of the improvement in the company's business risk profile marked by healthy growth in revenue and profitability while maintaining comfortable working capital cycle and improvement in financial risk profile.

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

Update

PCL reported profit before tax (PBT) of Rs.18.25 crore on operating income of Rs.274.63 crore for FY2015-16 (provisional) as compared to PBT of Rs.13.27 crore on operating income of Rs.246.23 crore in the previous year. The company reported operating margin of 12.11 per cent and net cash accruals of Rs.24.38 crore before tax for FY2015-16 (provisional). The improvement in profitability is on account of decline in raw material prices and plant up-gradation undertaken in FY2015-16. Besides, the company has prepaid the term loan taken for its phenol acetone plant resulting in improvement in its financial risk profile particularly capital structure. While the utilisation of the phenol-acetone plant that commenced operations in FY2015-16 is low at present, revenues in the medium term are expected to be robust. PCL's net worth stood at Rs.73.99 crore before tax for FY2015-16 (provisional) vis-à-vis Rs.55.70 crore in the previous year. The company's gearing is comfortable at 0.64 times and interest coverage ratio is healthy at 5.57 times. The ROCE stood at 21.57 per cent for the same period. The working capital cycle stood at 37 days and is expected to be maintained around 30-50 days over the medium term. SMERA believes that the company will sustain improvement in its financial risk profile over the medium term owing to consistent growth in its net worth and absence of large debt-funded capex plan.

Outlook: Stable

SMERA believes PCL will continue to benefit over the medium term from its strong market position, experienced management and established relations 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 registers improvement in its capital structure or working capital cycle. Conversely, the outlook may be revised to 'Negative' if the revenues or profitability decline or the capital structure deteriorates on account of higher-than-expected debt-funded working capital requirement.

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Prasol Chemicals Limited (PCL)

Rating Rationale

Rating Sensitivity Factors

- Adverse movements in raw material prices and forex rates
- Efficient working capital management
- Optimum utilisation of the phenol acetone plant
- Debt funded capex impacting the financial risk profile

About the Company

PCL, incorporated in 1992, is a Navi Mumbai-based company promoted by Mr. Nishith Shah and Mr. B. K. Gupta. The company manufactures acetone and phosphorous-based compounds used in solvent-based paints, pesticides and engine oils. The phenol acetone plant commenced operations in September, 2015.

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