

Press Release

Prasol Chemicals Private Limited

22 September, 2017

Rating Upgraded



Total Bank Facilities Rated*	Rs.120.00 Cr
Long Term Rating	SMERA A/Stable (Upgraded)
Short Term Rating	SMERA A1 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA A** (read as SMERA A) from 'SMERA A-' (read as SMERA single A minus) and reaffirmed the short term rating at '**SMERA A1**' (read as SMERA A one) on the above mentioned bank facilities of Prasol Chemicals Private Limited (PCPL). The outlook is '**Stable**'. SMERA has also withdrawn the long term rating of '**SMERA A**' on the Rs.12.34 crore term loan of PCPL as the company has repaid the same and there are no dues outstanding.

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

PCPL (erstwhile Prasol Chemicals Limited), 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, agro chemicals, coatings, perfumeries, pesticides and lube oil additives. The phenol acetone plant commenced operations in September, 2015. In FY2016-17, the company changes its constitution to a private limited company.

List of Key Rating Drivers and their detailed description

Strengths:

Long track record of operations, experienced management - PCPL, incorporated in 1992, is a Navi Mumbai-based company engaged in the manufacture of acetone and phosphorous-based compounds used in solvent-based paints, pesticides and engine oils. The company benefits from its experienced management. The promoters have around 20 years of experience in the organic chemicals industry. PCPL is one of India's leading manufacturers of di-acetone alcohol and phosphorus pentasulfide. The company has a diversified clientele (around 600 customers).

SMERA believes that PCPL will continue to benefit from its established position in the market and experienced management.

Healthy financial risk profile - PCPL has a healthy financial risk profile marked by tangible networth of Rs.85.61 crore as on 31 March, 2017. The gearing stands comfortable at 0.54 times as on 31 March, 2017. The total debt of Rs.46.27 crore as on 31 March, 2017 comprises long term loan of Rs.13.96 crore, unsecured loan from shareholders of Rs.7.10 crore, fixed deposits from directors of Rs.1.53 crore and short term working capital funding of Rs.23.68 crore. PCPL has a robust interest coverage ratio and net cash accruals to total debt which stood at 8.74 times and 0.54 times in FY2016-17 as against 5.24 times and 0.40 times in FY2015-16. The company is currently in the process of doubling its existing capacity of Isophorone (derivative of Acetone) and P₂S₅ (Phosphorus Pentasulfide) and plans to manufacture more value added products i.e. phosphorus based derivatives in its P₂S₅ plant. PCPL has purchased a 20 acre land in Mahad for

the expansion project in FY2017-18. The total project cost of Rs.100 crore will be spread over the next three years and funded in a mix of debt and internal accruals. Considering the phased manner of this project, the additional debt funded capex is not likely to significantly impact the debt protection indicators over the near to medium term.

SMERA believes that PCPL will sustain its healthy financial risk profile on the back of healthy cash accruals.

Healthy business risk profile – PCPL registered healthy revenue growth of ~24 per cent in FY2016-17 over the previous year. Revenues stood at Rs.341.97 crore in FY2016-17 as against Rs.274.88 crore in the previous year. The growth is primarily volume driven in its key products viz. DAA and P2S5. The company commenced production of phenol which has also added to the top line growth in FY2016-17. The company registered revenue of Rs.123.35 crore during the period April to July 2017 as against Rs.106.08 crore during the corresponding period last year. The operating margins improved post commissioning of the phenol acetone plant in September 2015 and after process improvement initiatives taken by the company. The EBITDA margins stood at 10.93 per cent in FY2016-17 as against 8.98 per cent in FY2014-15. The company has healthy net cash accruals of Rs.24.90 crore in FY2016-17 and Rs.18.77 crore in FY2015-16. PCPL has a diversified clientele comprising ~600 customers. The company caters to diverse industries including solvent-based paints, pesticides and engine oils. The company exports to around 40 countries spread across Europe, Africa, Middle east, Asia thereby diversifying its geographical reach.

SMERA believes that PCPL will maintain a healthy business risk profile on the back of its established market presence.

Efficient working capital cycle and comfortable liquidity - PCPL has maintained a comfortable working capital cycle of 29 days for FY2017 (24 days for FY2016). The gross current assets stood at 121 days in FY2017 (130 days in FY2016). The company has a strict inventory policy of around 40 days which enables it to guard against inventory holding risk. The average bank limit utilisation is 61.60 per cent for six months ended June 2017 and cash & bank balance of Rs.7.22 crore as on 31 March, 2017.

Weaknesses

Susceptibility to volatility in raw material prices and forex rates – PCPL's major raw materials are cumene and acetone, the prices of which are highly volatile. Thus, PCPL's margins are susceptible to adverse movements in raw material prices. The company tries to mitigate this risk by having a strict inventory holding policy of not more than 40 days and by trading in raw materials. PCPL imports around 66 per cent of its total raw material requirement while export sales account for around 18 per cent of its total revenue. Hence, it enjoys a natural hedge. The company partially hedges its exposure beyond the natural hedge based on its expectations of currency fluctuations while the unhedged part is exposed to foreign exchange fluctuation risk.

Susceptibility to changes in government regulations - PCPL is susceptible to unfavourable changes in government regulations from time to time. SMERA believes that significant changes in the regulatory framework will impinge on the credit profile of the company.

Analytical approach: SMERA has considered the standalone business and financial risk profile of PCPL to arrive at the rating.

Outlook - Stable

SMERA believes that PCPL will maintain a stable outlook and continue to benefit over the medium term from its established market position and extensive industry experience of its promoters. The outlook may be revised to 'Positive' in case of sustainable improvement in the scale of operations, while maintaining profitability and a comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' if PCPL's revenue and profitability decline or if its financial risk profile weakens.

About the Rated Entity – Key Financials

For FY2016-17, PCPL registered profit after tax (PAT) of Rs.18.72 crore on operating income of Rs.341.97 crore as against PAT of Rs.12.95 crore on operating income of Rs.274.88 crore in the previous year. The net worth stood at Rs.85.61 crore as on 31 March, 2017 compared to Rs.66.55 crore as on 31 March, 2016.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History (Upto last three years):

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18 May, 2016	Term Loan	Long Term	3.83	SMERA BBB+/Stable (Withdrawn)
	Cash Credit	Long Term	13.04	SMERA A-/Stable (Assigned)
	Cash Credit	Long Term	55.36	SMERA A-/Stable (Upgraded from SMERA BBB+/Stable)
	Term Loan	Long Term	5.45	SMERA A-/Stable (Upgraded from SMERA BBB+/Stable)
	Bank Guarantee	Short Term	0.40	SMERA A1 (Upgraded from SMERA A2+)
	Buyer's Credit	Short Term	15.00	SMERA A1 (Upgraded from SMERA A2+)
	Financial Guarantees and Standby Line of	Short Term	15.00	SMERA A1 (Upgraded from SMERA

	Credit			A2+)
	Letter of Credit/Buyer's Credit	Short Term	14.50	SMERA A1 (Upgraded from SMERA A2+)
	Loan Equivalent Risk	Short Term	1.25	SMERA A1 (Upgraded from SMERA A2+)
09 October, 2015	Cash Credit	Long Term	55.36	SMERA BBB+/Stable (Reaffirmed)
	Term Loans	Long Term	12.34	SMERA BBB+/Stable (Reaffirmed)
	Term Loan (New)	Long Term	5.00	SMERA BBB+/Stable (Assigned)
	Term Loan (Proposed)	Long Term	1.15	SMERA BBB+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.40	SMERA A2+ (Reaffirmed)
	Buyer's Credit	Short Term	15.00	SMERA A2+ (Reaffirmed)
	Financial Guarantees and Standby Line of Credit	Short Term	15.00	SMERA A2+ (Reaffirmed)
	Letter of Credit/Buyer's Credit	Short Term	9.50	SMERA A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	SMERA A2+ (Assigned)
	Loan Equivalent Risk	Short Term	1.25	SMERA A2+ (Reaffirmed)
06 August, 2014	Cash Credit	Long Term	50.36	SMERA BBB+/Stable (Assigned)
	Term Loans	Long Term	12.43	SMERA BBB+/Stable (Assigned)
	Proposed Term Loan	Long Term	6.06	SMERA BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	0.40	SMERA A2+ (Assigned)
	Buyer's Credit	Short Term	15.00	SMERA A2+ (Assigned)
	Financial Guarantees and Standby Line of Credit	Short Term	20.00	SMERA A2+ (Assigned)
	Letter of Credit/Buyer's Credit	Short Term	14.50	SMERA A2+ (Assigned)
	Loan Equivalent Risk	Short Term	1.25	SMERA A2+ (Assigned)

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	N.A.	N.A.	N.A.	38.25*	SMERA A/Stable (Upgraded from SMERA A-/Stable)
Term Loans	N.A.	N.A.	N.A.	36.85	SMERA A/Stable (Upgraded from SMERA A-/Stable)
Buyers' Credit	N.A.	N.A.	N.A.	15.00	SMERA A1 (Reaffirmed)
Financial Guarantees and Standby Line of Credit	N.A.	N.A.	N.A.	15.00#	SMERA A1 (Reaffirmed)
Bank Guarantee	N.A.	N.A.	N.A.	0.40	SMERA A1 (Reaffirmed)
Letter of Credit/Buyers credit	N.A.	N.A.	N.A.	9.50\$	SMERA A1 (Reaffirmed)
Letter of credit	N.A.	N.A.	N.A.	5.00@	SMERA A1 (Reaffirmed)
Term Loans	N.A.	N.A.	N.A.	12.34	SMERA A/Stable (Withdrawn)

*Above limit includes sublimit of pre/post shipment finance to the extent of Rs.35.00 Crore, Cash Credit to the extent of Rs.30.00 Crore, working capital demand loan to the extent of Rs.30.00 crore, Sight LC to the extent of Rs.20.00 crore, Guarantees/Sight LC to the extent of Rs. 15.00 crore, Bill Discounting to the extent of Rs.10.00 crore.

For limit of Rs.8.00 crore, it is fully interchangeable with post shipping credit. It also includes sublimit of Export Packing Credit/Pre Shipment Credit in Foreign Currency and working capital demand loan to the extent of Rs.4.00 crore

#Fully interchangeable with pre shipment finance. Above limit includes sublimit of short term loans to the extent of Rs. 8 crore and overdraft to the extent of Rs. 8 Crore, Pre-shipment finance under export orders of Rs. 10.00 crore, export bill discounting (under D/A and D/P) to the extent of Rs. 10 Crore, credit bills negotiated to the extent of Rs. 10 Crore, import letter of credit to the extent of Rs. 15 Crore, shipping guarantee to the extent of Rs. 5 Crore, bond & guarantees to the extent of Rs. 10 Crore.

\$Includes sublimit of Bank Guarantee to the extent of Rs. 1.60 Crore.

@Fully interchangeable with Buyer's Credit. Above limit includes sublimit of Overdraft, working capital demand loan, Pre-shipment finance and foreign bill purchase to the extent of Rs. 3.00 crore each.

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ABOUT SMERA

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