

Press Release

Prasol Chemicals Private Limited

December 05, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 245.00 Cr. (Enhanced from Rs.120.00 crore)
Long Term Rating	ACUITE A / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A1 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A**' (read as **ACUITE A**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 144.93 crore bank facilities and assigned long term rating of '**ACUITE A**' (read as **ACUITE A**) to the Rs. 100.07 crore bank facilities of Prasol Chemicals Private Limited (PCPL). The outlook is '**Stable**'.

Prasol Chemicals Private Limited (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 changed its constitution to a private limited company.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PCPL to arrive at this rating.

Key Rating Drivers

Strengths

• Long track record of operations and 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. PCPL is promoted by Mr. Nishith Shah (Metallurgical Engineer) and Mr. B. K. Gupta who possesses over three decades of overall experience with two decades of experience in the organic chemicals industry. The company benefits from its experienced management. PCPL is one of India's leading manufacturers of di-acetone alcohol and phosphorus pentasulfide. The company has a diversified clientele of around 600 customers.

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

• Healthy Financial Risk Profile

The financial risk profile of PCPL is healthy marked by healthy tangible net worth, debt protection metrics and leverage ratios. The tangible net worth of PCPL stood at Rs.95.99 crore as on 31 March, 2018 as against Rs.85.61 crore in the previous year. The company has bought back the shares worth Rs.8.00 crore in FY2018 utilising Rs.7.80 from security premium and Rs.0.20 crore from surplus from P&L account. The gearing (debt-equity) stood healthy at 0.86 times as on 31 March, 2018 as against 0.54 times as on 31 March, 2017. The total debt of Rs.82.25 crore as on 31 March, 2018 comprises term loan of Rs.41.68 crore, unsecured loans from directors and Rs.38.13 crore working capital facility from bank. The coverage indicator of the company stood healthy marked by healthy Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood healthy at 8.07 times for FY2018 as against 8.74 times for FY2017. DSCR stood at 3.26 times in FY2018 as against 3.83 times in the previous year. Total outside liabilities to tangible net worth has remained at 2.04 times as on 31 March, 2018 (PY: 1.49 times). The increase in TOL/TNW is majorly on account of addition of new term loans and increase in trade payables as on 31 March, 2018.

The company is undergoing a capital expenditure in FY2019. The company is installing a 5 MW co-gen

power generation plant at its manufacturing unit based in Khapoli (Maharashtra) and increasing its installed capacity. The company is currently in the process of tripling (from that in FY2017) its installed 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, giving a healthy revenue and improvement in margins in coming years. Considering the current debt funded capex, the additional debt funded capex is not likely to significantly impact the financial risk profile of the company in near to medium term. Any higher-than-expected deterioration in financial risk profile of the company will remain a key rating sensitivity factor.

• **Healthy business risk profile**

The revenues of PCPL have grown at a CAGR of ~22 percent from FY2015 to FY2018. PCPL registered healthy revenue growth of ~30 percent in FY2018 over FY2017. Revenues stood at Rs.442.52 crore in FY2018 as against Rs.341.97 crore in the previous year. The growth in revenue is majorly on account of higher capacity utilisation and higher realisation of its key products viz. DAA and P2S5. The company has registered revenue of Rs.240.67 crore during the period April to September 2018. The operating margins have marginally decline in FY2018 as against FY2017; this is majorly on account of cancellation of duty free export of acetone in FY2018, increase in trading income and increase in power cost in FY2018. The EBITDA margins stood at 9.79 percent in FY2018 as against 10.93 percent in FY2017. The company has healthy net cash accruals of Rs.26.91 crore in FY2018 and 24.90 crore in FY2017. 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, and Asia, thereby diversifying its geographical reach. The company has received 'REACH' registration, thereby further diversifying its geographical reach.

Acuite 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 32 days for FY2018 as against 29 days for FY2017. The Gross Current Assets (GCA) stood at 142 days in FY2018 as against 121 days in FY2017. The increase in GCA days is majorly on account of GST refund receivable which the company has received in FY2019. 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 62 percent for six months ended October 2018 and cash & bank balance of ~Rs.7.00 crore as on 30 September, 2018.

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 percent of its total raw material requirement while export sales account for around 18 percent 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. Acuite believes that significant changes in the regulatory framework will impinge on the credit profile of the company.

Outlook: Stable

Acuite 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 sharply deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	442.52	341.97	274.88
EBITDA	Rs. Cr.	43.33	37.37	32.67
PAT	Rs. Cr.	20.40	18.72	12.95
EBITDA Margin	(%)	9.79	10.93	11.88
PAT Margin	(%)	4.61	5.47	4.71
ROCE	(%)	21.90	23.03	21.37
Total Debt/Tangible Net Worth	Times	0.86	0.54	0.71
PBDIT/Interest	Times	8.06	8.74	5.24
Total Debt/PBDIT	Times	1.87	1.24	1.49
Gross Current Assets (Days)	Days	142	121	129

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Sept-2017	Cash Credit	Long Term	38.25&	ACUITE A / Stable (Upgraded)
	Term Loans	Long Term	36.85	ACUITE A / Stable (Upgraded)
	Buyers' Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Financial Guarantees and Standby Line of Credit	Short Term	15.00#	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A1 (Reaffirmed)
	Letter of Credit/Buyers credit	Short Term	9.50\$	ACUITE A1 (Reaffirmed)
	Letter of credit	Short Term	5.00@	ACUITE A1 (Reaffirmed)
	Term Loans	Long Term	12.34	ACUITE A / Stable (Withdrawn)
18-May-2016	Term Loan	Long term	3.83	ACUITE BBB+/Stable (Withdrawn)
	Cash Credit	Long term	13.04	ACUITE A- / Stable (Assigned)
	Cash Credit	Long term	55.36	ACUITE A- / Stable (Upgraded)

	Term Loan	Long term	5.45	ACUITE A- / Stable (Upgraded)
	Bank Guarantee	Short Term	0.40	ACUITE A1 (Upgraded)
	Buyer's Credit	Short Term	15.00	ACUITE A1 (Upgraded)
	Financial Guarantees and Standby Line of Credit	Short Term	15.00	ACUITE A1 (Upgraded)
	Letter of Credit/Buyer's Credit	Short Term	14.50	ACUITE A1 (Upgraded)
	Loan Equivalent Risk	Short Term	1.25	ACUITE A1 (Upgraded)
09-Oct-2015	Cash Credit	Long term	55.36	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loans	Long term	12.34	ACUITE BBB+ / Stable (Reaffirmed)
	Term Loans (New)	Long term	5.00	ACUITE BBB+ / Stable (Assigned)
	Proposed Term Loan	Long term	1.15	ACUITE BBB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A2+ (Reaffirmed)
	Buyer's Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Financial Guarantees and Standby Line of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit/Buyer's Credit	Short Term	9.50	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Loan Equivalent Risk	Short Term	1.25	ACUITE A2+ (Reaffirmed)

&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. 8.00 crore and overdraft to the extent of Rs. 8.00 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. 10.00 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 & guarantees to the extent of Rs. 10.00 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, Preshipment finance and foreign bill purchase to the extent of Rs. 3.00 crore each.

***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	Not Applicable	Not Applicable	Not Applicable	5.64	ACUITE A / Stable (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	0.61	ACUITE A / Stable (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	8.00^	ACUITE A / Stable (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A / Stable (Reaffirmed)
Buyers Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE A / Stable (Reaffirmed)
Term loan I	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A / Stable (Reaffirmed)
Term loan II	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A / Stable (Reaffirmed)
Term loan III	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A / Stable (Reaffirmed)
Term loan IV	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A / Stable (Assigned)
Term loan V	Not Applicable	Not Applicable	Not Applicable	9.25	ACUITE A / Stable (Assigned)
Term Loan VI	Not Applicable	Not Applicable	Not Applicable	18.82	ACUITE A / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A / Stable (Assigned)
Financial Guarantees/Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00# (Enhanced from Rs.15.00 crore)	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A1 (Reaffirmed)
Letter of Credit/Buyers credit	Not Applicable	Not Applicable	Not Applicable	9.50\$	ACUITE A1 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	14.93@ (Enhanced from Rs.5.00 crore)	ACUITE A1 (Reaffirmed)

#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, Preshipment finance and foreign bill purchase to the extent of Rs. 3.00 crore each.

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