

Press Release

Prasol Chemicals Private Limited

February 20, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs. 245.00 Cr.
Long Term Rating	ACUITE A+ / Outlook: Stable (Upgraded from ACUITE A /Stable)
Short Term Rating	ACUITE A1+ (Upgraded from ACUITE A1)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A+**' (read as **ACUITE A plus**) from '**ACUITE A**' (read as **ACUITE A**) and the short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) from '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.245.00 crore bank facilities of PRASOL CHEMICALS PRIVATE LIMITED (PCPL). The outlook is '**Stable**'.

The revision in rating is on account of healthy improvement in business risk profile as reflected by the improvement in sales volume for the period April to Dec, 2019 and FY2019 which is expected to be sustained over the near to medium term. PCPL plans to manufacture more value added products i.e. phosphorus based derivatives in its P2S5 plant, Isophorone, 3,5 Xynol giving a healthy revenue and margins in coming years. Increase in manufacturing income is also expected to improve the profitability of the company. Further, the company has undergone a capex of co-gen power generation of 5 MW will help PCPL reduce its power cost thereby improving the profitability. Hence, Acuite expects that PCPL will be able to exhibit improved operating metrics.

PCPL, incorporated in 1992, is a Navi Mumbai-based company promoted by Mr. Nishith Shah (Chairman), Mr. Gaurang Parikh (Managing Director) and others. The company manufactures acetone and phosphorous-based compounds used in solvent-based paints, agro chemicals, coatings, perfumeries, pesticides and lube oil additives.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of 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. Gaurang Parikh (M.S. Chemical Engineering) who has 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 diacetone alcohol and phosphorus pentasulfide (used for making lube oil additives, insecticides, etc.). The company has a diversified customer base.

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.118.42 crore as on 31 March, 2019 as against Rs.95.99 crore in the previous year. The increase in tangible net worth is on account of accretion in reserves. The gearing (debt to equity) stood at 1.24 times as on 31 March, 2019 as against 0.86 times as on 31 March, 2018. The total debt of Rs.146.40 crore as on 31 March, 2019 comprises term loan of Rs.111.06 crore, unsecured loans from directors, shareholders, friends and relatives of Rs. 4.27 crores and Rs.31.08

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 9.15 times for FY2019 as against 8.07 times for FY2018. DSCR stood at 2.26 times in FY2019 as against 3.26 times in the previous year. Total outside liabilities to tangible net worth has remained at 2.48 times as on 31 March, 2019 (PY: 2.04 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, 2019.

The company has installed a 5MW co-gen power generation plant as its manufacturing unit based in Khopoli (Maharashtra). The company also focuses on improving its installed capacity which is currently being utilized at 90-95 percent. PCPL plans to manufacture more value added products i.e. phosphorus based derivatives in its P2S5 plant, Isophorone, 3,5 Xynol 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 ~20 percent from FY2017 to FY2019. Revenues stood at Rs.498.50 crore in FY2019 as against Rs. 442.52 crore in the previous year. The growth in revenue is majorly on account of higher capacity utilization and higher realization of its key products viz. DAA and P2S5. Introduction of new product like 3,5 Xynol are expected to improve the operating income of PCPL. PCPL has registered revenue of Rs.392.35 crore (Provisional) during the period April to December, 2019.

The operating margins improved in FY2019 as against FY2018 which is on account of high manufacturing income in FY2019. The EBITDA margins stood at 10.26 percent in FY2019 as against 9.79 percent in FY2018. The company has healthy net cash accruals of Rs.31.52 crore in FY2019 and 26.91 crore in FY2018. PCPL has a diversified customer base. 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 and global presence.

• **Moderate working capital operations**

PCPL's working capital operation is moderate marked by Gross Current Assets (GCA) of 148 days in FY2019 as against 142 days in FY2018. The increase in GCA days is majorly on account of GST refund receivable which the company has received in FY2020. The company has a strict inventory policy of around 40-45 days which enables it to guard against inventory holding risk. The average bank limit utilization is 25 percent for six months ended December, 2019 and cash & bank balance of ~Rs.12.17 crore as on March, 2019.

Weaknesses

• **Susceptibility to volatility in raw material prices and forex rates**

PCPL's major raw materials are phosphorus 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 45 days and by trading in raw materials. PCPL imports around 71 percent of its total raw material requirement while export sales account for around 30 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.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in Gross Current Asset (GCA) to 180-200 days.

Material Covenants

None

Liquidity position: Healthy

PCPL has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.24.9 to Rs.31.5 crore during the last three years through 2017- 19, while its maturing debt obligations were in the range of Rs.3.1–15.8 crore over the same period. The cash accruals of the company are estimated to improve to Rs.46.0-55.00 crore during 2019-21 with improvement in revenues while its repayment obligations are expected to be in the range of Rs.15.8-20.4 crores in the aforementioned period. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 148 in FY2019. The cash credit limit in PCPL remains utilized at below ~25 per cent during the last 6 months period ended December, 2019. The company maintains unencumbered cash and bank balances of Rs.12.17 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.14 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of expected healthy cash accruals over the medium term.

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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	498.50	442.52
PAT	Rs. Cr.	23.73	20.40
PAT Margin	(%)	4.76	4.61
Total Debt/Tangible Net Worth	Times	1.24	0.86
PBDIT/Interest	Times	9.15	8.06

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

Not Applicable

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-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
05-Dec-2018	Cash Credit	Long Term	5.64	ACUITE A / Stable (Reaffirmed)
	Cash Credit	Long Term	0.61	ACUITE A / Stable (Reaffirmed)
	Cash Credit	Long Term	8.00^	ACUITE A / Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE A / Stable (Reaffirmed)
	Buyers Credit	Long Term	15.00	ACUITE A / Stable (Reaffirmed)

	Term Loan	Long Term	5.10	ACUITE A / Stable (Reaffirmed)
	Term Loan I	Long Term	3.75	ACUITE A / Stable (Reaffirmed)
	Term Loan II	Long Term	11.00	ACUITE A / Stable (Reaffirmed)
	Term Loan III	Long Term	17.00	ACUITE A / Stable (Reaffirmed)
	Term Loan IV	Long Term	32.00	ACUITE A / Stable (Assigned)
	Term Loan V	Long Term	9.25	ACUITE A / Stable (Assigned)
	Term Loan VI	Long Term	18.82	ACUITE A / Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A / Stable (Reaffirmed)
	Term Loan	Long Term	20.00	ACUITE A / Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A / Stable (Assigned)
	Financial Guarantees/Standby Letter of Credit	Short Term	30.00# (Enhanced from Rs.15.00 crore)	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	14.93 (Enhanced from Rs.5.00 crore)	ACUITE A1 (Reaffirmed)
22-Sept-2017	Cash Credit	Long Term	38.25	ACUITE A / Stable (Upgraded A- /Stable)
	Term Loan	Long Term	36.85	ACUITE A / Stable (Upgraded A- /Stable)
	Buyers Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Financial Guarantees/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 Loan	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 from ACUITE BBB+ /Stable)
	Term Loan	Long Term	5.45	ACUITE A- /Stable (Upgraded from ACUITE BBB+ /Stable)

	Bank Guarantee	Short Term	0.40	ACUITE A1 (Upgraded from ACUITE A2+)
	Buyers Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Financial Guarantees/Standby Line of Credit	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	14.50	ACUITE A1 (Upgraded from ACUITE A2+)
	Loan Equivalent Risk	Short Term	1.25	ACUITE A1 (Upgraded from ACUITE A2+)
09-Oct-2015	Cash Credit	Long Term	55.36	ACUITE BBB+ /Stable (Reaffirmed)
	Term Loan	Long Term	12.34	ACUITE BBB+ /Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB+ /Stable (Assigned)
	Proposed Long Term Loan	Long Term	1.15	ACUITE BBB+ /Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A2+ (Reaffirmed)
	Buyers Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Financial Guarantees/Standby Line of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Letter of 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)
06-Aug-2014	Cash Credit	Long Term	50.36	ACUITE BBB+ /Stable (Assigned)
	Term Loan	Long Term	12.43	ACUITE BBB+ /Stable (Assigned)
	Proposed Long Term Loan	Long Term	6.06	ACUITE BBB+ /Stable (Assigned)
	Bank Guarantee	Short Term	0.40	ACUITE A2+ (Assigned)
	Buyers Credit	Short Term	15.00	ACUITE A2+ (Assigned)
	Financial Guarantees/Standby Line of Credit	Short Term	20.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	14.50	ACUITE A2+ (Assigned)
	Loan Equivalent Risk	Short Term	1.25	ACUITE A2+ (Assigned)

#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.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.60	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00^	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan	20-Mar-2018	Not Applicable	20-Mar-2021	1.08	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan I	22-Jun-2015	Not Applicable	22-Jan-2020	0.31	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan II	28-Feb-2019	Not Applicable	28-Feb-2025	6.47	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan III	26-Jul-2017	Not Applicable	26-Jul-2024	16.15	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan IV	02-May-2018	Not Applicable	30-Apr-2025	32.00	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan V	28-Feb-2019	Not Applicable	28-Feb-2025	9.00	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan VI	10-Jul-2018	Not Applicable	28-Feb-2024	15.39	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Term Loan	06-Jul-2018	Not Applicable	06-Jul-2024	19.00	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00*	ACUITE A+ /Stable (Upgraded from ACUITE A /Stable)
Financial Guarantees/ Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	30.00#	ACUITE A1+ (Upgraded from ACUITE A1)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A1+ (Upgraded from ACUITE A1)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.50\$	ACUITE A1+ (Upgraded from ACUITE A1)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.50@	ACUITE A1+ (Upgraded from

					ACUITE A1)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00&	ACUITE A1+ (Upgraded from ACUITE A1)

*Sublimit – FBD/FBN/FPB of Rs.20.00 crore, EPC/PCFC of Rs.15.00 crore and WCDL of Rs.15.00 crore of Cash Credit

^Fully interchangeable with post shipping credit. Above limit 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

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

#Fully interchangeable with pre-shipment finance. Above limit includes sublimit of short-term loans to the extent of Rs. 16 crore and overdraft to the extent of Rs. 16 Crore, Pre-shipment finance under export orders of Rs. 30.00 crore, export bill discounting (under D/A and D/P) to the extent of Rs. 30 Crore, credit bills negotiated to the extent of Rs. 30 Crore, import letter of credit to the extent of Rs. 30 Crore, shipping guarantee to the extent of Rs. 5 Crore, bond & guarantees to the extent of Rs. 10 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.

&Fully interchangeable with Import deferred payment credits.

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About Acuite Ratings & Research:

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