

Press Release

Prasol Chemicals Private Limited

March 04, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.292.00 Cr. (Enhanced from Rs.245.00 crore)
Long Term Rating	ACUITE A+/Stable (Reaffirmed)
Short Term Rating	ACUITE A1+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A+**' (**read as ACUITE A plus**) and short term rating of '**ACUITE A1+**' (**read as ACUITE A one plus**) on the Rs.273.21 crore bank facilities of Prasol Chemicals Private Limited (PCPL). The outlook is '**Stable**'.

Also, Acuité has assigned the long term rating of '**ACUITE A+**' (**read as ACUITE A plus**) on the Rs.18.79 crore bank facilities of PCPL. The outlook is '**Stable**'.

Further, Acuité has withdrawn the long term rating of '**ACUITE A+**' (**read as ACUITE A plus**) on the Rs.1.39 crore bank facilities of PCPL.

Rationale for rating reaffirmation

The rating reaffirmation factors in comfort derived from the company's long track record of operations in the chemical industry, experienced management and established relationship with reputed clienteles across various industries like automotive, lubricants, inks, pigments, cosmetics, agro chemical, pharmaceuticals, flavor/fragrance, etc. The rating is further supported by strong liquidity and healthy financial profile with a low gearing of 0.81 times and debt to EBITDA coverage of 2.07 times as on March 31, 2020. The debt coverage indicators are healthy with cash accruals of Rs.48.57 Cr in FY20. The rating is, however, constrained by volatility in raw material prices.

About the Company

Prasol Chemicals Private Limited (PCPL) was established in the year 1992 and was engaged into manufacturing of Unsaturated Polyester Resins (used mainly in making fiber plastics and filled plastic products, including sanitary-ware, tanks, pipes, etc.) having plant in Vapi, Gujarat. In the year 1996, PCPL closed its Vapi plant as it was not profitable and started new business of manufacturing Phosphorus Pentoxide, Polyphosphoric Acid and Food Grade Phosphoric Acid and a new plant was set up at Khopoli. The company is managed by Mr. Nishith Shah and Mr. Gaurang Parikh, along with 7 other directors.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of PCPL to arrive at the 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 diacetone alcohol and phosphorus pentasulfide (used for making lube oil additives, insecticides, etc.). The company has a diversified customer base across various industries like automotive, lubricants, inks, pigments, cosmetics, agro chemical, pharmaceuticals, flavor/fragrance, etc. Also, revenue from top 10 customers is around 22 per cent which mitigates the customer

concentration risk.

Acuité 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.162.86 crore as on 31 March, 2020 as against Rs.122.69 crore in the previous year. This includes quasi equity of Rs.7.19 crore as on 31 March, 2020 as against Rs.4.27 crore in the previous year. The gearing (debt to equity) improved to 0.81 times as on 31 March, 2020 from 1.16 times as on 31 March, 2019. The total debt of Rs.131.59 crore as on 31 March, 2020 comprises term loan of Rs.118.38 crore and Rs.13.21 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). Though, ICR reduced to 7.35 times for FY2020 as against 9.15 times for FY2019, it stood healthy. DSCR stood at 2.34 times in FY2020 as against 2.56 times in the previous year. Total outside liabilities to tangible net worth has improved to 1.93 times as on 31 March, 2020 as against 2.35 times 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 which are forward integration of P2S5, Isophorone, 3,5 xylene 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 ~9.89 percent from FY2018 to FY2020. Revenues stood at Rs.534.35 crore in FY2020 as against Rs.498.50 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 xylene are expected to improve the operating income of PCPL. PCPL has registered revenue of Rs.416.02 crore during the period April to December, 2020 as against Rs.391.94 crore during the period April to December, 2019.

The operating margins improved in FY2020 from FY2019 which is on account of high manufacturing income in FY2020. The EBITDA margins stood at 11.81 percent in FY2020 as against 10.26 percent in FY2019. The company has healthy net cash accruals of Rs.48.57 crore in FY2020 as against Rs.31.52 crore in FY2019. PCPL has a diversified customer base. The company caters to diverse industries including automotive, lubricants, inks, pigments, cosmetics, agro chemical, pharmaceuticals, flavor/fragrance, etc. 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. Acuité 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 149 days in FY2020 as against 148 days in FY2019. The increase in GCA days is majorly on account of GST refund receivable which the company has received in FY2021, along with an accounting entry related to forward contracts worth Rs.13.95 crore. 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 68 percent for six months ended January, 2021 and cash & bank balance of ~Rs.13.15 crore as on March, 2020.

Weaknesses

- **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 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.

Liquidity Position: Strong

PCPL has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.26.91 to Rs.48.57 crore during the last three years through 2018- 20, while its maturing debt obligations were in the range of Rs.8.90 to 27.91 crore over the same period. The cash accruals of the company are estimated to improve to Rs.44.00 to 67.00 crore during 2021-23 with improvement in revenues while its repayment obligations are expected to be in the range of Rs.33.00 to 46.00 crores in the aforementioned period. The company's operations are moderate working capital as marked by Gross Current Asset (GCA) days of 149 in FY2020. The cash credit limit in PCPL remains utilized at below 68 per cent during the last 6 months period ended January, 2021. The company maintains unencumbered cash and bank balances of Rs.13.21 crore as on March 31, 2020. The current ratio of the company stood moderate at 1.06 times as on March 31, 2020. Acuité 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

Acuité 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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	534.35	498.50
Profit after tax (PAT)	Rs. Crore	38.23	23.73
PAT margin	%	7.15	4.76
Total debt / Tangible Net worth	Times	0.81	1.16
PBDIT / Interest	Times	7.35	9.15

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-52.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-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Feb-2020	Cash Credit	Long Term	23.60	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Cash Credit	Long Term	0.30	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Cash Credit	Long Term	8.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Cash Credit	Long Term	4.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	1.08	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	0.31	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	6.47	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	16.15	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	32.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	9.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	15.39	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Cash Credit	Long Term	20.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Term Loan	Long Term	19.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Cash Credit	Long Term	20.00	ACUITE A+/Stable (Upgraded from ACUITE A/Stable)
	Standby Line of Credit	Short Term	30.00	ACUITE A1+ (Upgraded from ACUITE A1)
	Bank Guarantee	Short Term	0.70	ACUITE A1+ (Upgraded from ACUITE A1)
	Letter of Credit	Short Term	9.50	ACUITE A1+ (Upgraded from ACUITE A1)
	Letter of Credit	Short Term	14.50	ACUITE A1+ (Upgraded from ACUITE A1)
	Letter of Credit	Short Term	15.00	ACUITE A1+ (Upgraded from

				ACUITE A1)
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	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	5.10	ACUITE A/Stable (Reaffirmed)
	Term Loan	Long Term	3.75	ACUITE A/Stable (Reaffirmed)
	Term Loan	Long Term	11.00	ACUITE A/Stable (Reaffirmed)
	Term Loan	Long Term	17.00	ACUITE A/Stable (Reaffirmed)
	Term Loan	Long Term	32.00	ACUITE A/Stable (Assigned)
	Term Loan	Long Term	9.25	ACUITE A/Stable (Assigned)
	Term Loan	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)
	Standby Line of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	9.50	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	14.93	ACUITE A1 (Reaffirmed)
22-Sept-2017	Cash Credit	Long Term	38.25	ACUITE A/Stable (Upgraded from ACUITE BBB+/Stable)
	Term Loan	Long Term	36.85	ACUITE A/Stable (Upgraded from ACUITE BBB+/Stable)
	Buyers Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A1 (Reaffirmed)
	Letter of 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 (Upgraded & Withdrawn)

***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	36.50*	ACUITE A+/Stable (Reaffirmed)
Term Loan	21-Sept.- 2016	9.65%	07-Dec.- 2021	0.99	ACUITE A+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.30@	ACUITE A+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00\$	ACUITE A+/Stable (Reaffirmed)
Term Loan	17-Feb.- 2016	8.00%	31-Jan.- 2021	1.08	ACUITE A+ (Withdrawn)
Term Loan	10-Jul.-2018	8.00%	28-Feb.- 2024	9.64	ACUITE A+/Stable (Reaffirmed)
Term Loan	22-Jun.- 2015	9.65%	22-Jun.- 2020	0.31	ACUITE A+ (Withdrawn)
Term Loan	07-Jul-2017	8.60%	20-Jun-2022	3.88	ACUITE A+/Stable (Reaffirmed)
Term Loan	26-Jul-2017	8.60%	26-Jul-2024	11.90	ACUITE A+/Stable (Reaffirmed)
Term Loan	02-May- 2018	7.80%	30-Apr-2025	27.20	ACUITE A+/Stable (Reaffirmed)
Term Loan	28-Feb-2019	8.45%	28-Feb- 2025	7.20	ACUITE A+/Stable (Reaffirmed)
Term Loan	31-Dec- 2019	8.45%	31-Dec- 2025	10.00	ACUITE A+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00%	ACUITE A+/Stable (Reaffirmed)
Term Loan	06-Jul-2018	8.88%	06-Jul-2024	9.02	ACUITE A+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00^	ACUITE A+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00&	ACUITE A+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A+/Stable (Reaffirmed)
Term Loan	23-Apr-2018	8.65%	23-Apr-2024	7.80	ACUITE A+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00**	ACUITE A1+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A1+ (Reaffirmed)
Letter of Credit/Ban	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A1+ (Reaffirmed)

k Guarantee					
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00&	ACUITE A1+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A1+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.37	ACUITE A+/Stable (Reaffirmed)

*sublimit of WCDL of Rs.20.00 crore, BG of Rs.15.00 crore, Bills discounting of Rs.10.00 crore to CC.

@sublimit of WCDL of Rs.0.30 crore, packing credit of Rs.0.30 crore to CC and LC of Rs.0.30 crore to BG.

\$sublimit of WCDL and packing credit of Rs.4.00 crore to CC and BG of Rs.15.00 crore to LC.

%sublimit of WCDL, CC, EPC, PCFC, PFC, BC of Rs.20.00 crore to CC and LC of Rs.20.00 crore.

^sublimit of FDB/FBN/FBP of Rs.20.00 crore to CC, EPC/PCFC of Rs.15.00 crore to CC, WCDL of Rs.15.00 crore to CC, BG and LC of Rs.10.00 crore to CC.

&sublimit of WCDL of Rs.15.00 crore to CC and BG of Rs.30.00 crore to LC.

**sublimit of WCDL and packing credit of Rs.7.50 crore to CC and BG of Rs.22.50 crore to LC.

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