



Rating Rationale

AB Chem (India)

12 July 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 97.00 Crores of AB Chem (India) or 'the Firm'

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (May, 2018)	Present
Fund based Cash Credit	10.00	10.00	Long Term	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable (Reaffirmed)
Non Fund Based LC/FLC Derivatives	87.00 3.00	87.00 -	Short Term	BWR A3+ (Pronounced as BWR A Three Plus)	BWR A3+ (Pronounced as BWR A Three Plus) (Reaffirmed)
Total	100.00	97.00	INR Ninety Seven Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Reaffirmed

Rationale:

BWR has essentially relied upon the firm's audited financials up to FY18, un-audited financials for FY19, projected financials for FY20, publicly available information and clarifications provided by the firm.

The ratings, draw strength from the promoters' extensive experience in this business, availing fiscal benefits at its Jammu unit, adequate capital structure with absence of any interest-bearing term loans, established distribution network and continues to comfort drawn from its group support in terms of operational and financial synergies, besides satisfactory feedback from its existing lender.



The ratings are, however, constrained by muted sales growth coupled with low profitability margins over the past three years, exposure to risk arising from volatility in commodity prices and regulatory changes besides highly competitive industry due to fragmentation. BWR also noted that the firm's liquidity position deteriorated to moderate as it reported high trade payables against current assets available (excluding short-term advances) coupled with significant amount of funds being extended to its group entities during FY19.

Rating Sensitivities:

The ratings of the firm remains sensitive to the increase in sales growth by at least 20% by FY20, recovery of advances extended to various entities over the past three years, improvement in its liquidity position and profitability margins by at least 2%. BWR may revise the ratings, if the firm unable to achieve the aforesaid parameters.

Description of Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: The firm belongs to the Homeland group which benefits from the long term experience of the promoters in this sector. The major partners of the firm are Mr. Bishnu Kumar and Mr. Deepak Goyal. Currently, the entire operations of the group is being managed by these directors.

Fiscal benefits: The firm's manufacturing unit is located at Jammu where it enjoys benefits in terms of GST refund, freight reimbursement etc. Manufacturing segment contributes about 32% of the total turnover achieved and remaining is generated through trading of edible oils.

Adequate capital structure: The firm has availed unsecured loans of ~ Rs. 30 Crores, from promoters & its group companies which will remain subordinate to the secured debt availed from the existing lender. Thus, total adjusted partners capital stood at Rs. 59.89 Crores against negligible secured term loans during FY19.

Group Support: The firm is a part of the 'Homeland Group' based in Bathinda which provides business synergies and financial support. Homeland Group comprises diversified business including real estate development, trading of edible oils, manufacturing of agri commodities and pesticides etc.

Credit Risks:

Weak turnover growth and profitability: The firm's turnover growth remains muted, coupled with low profitability margins during FY19. Margins remained low as it offered products which have low value addition, with the majority of its turnover generated through trading activity. Interest coverage ratio also declined over the past two years on account of increasing interest cost & financial charges.



Exposure to risks arising from price fluctuations, forex risks, counterparty risks & regulatory changes: Around 70% of the turnover is generated from the high seas trading of edible oils. In case of high-seas or merchant trade, there is a time gap between imports and actual sales made, which may lead to a significant price fluctuations. The firm is also exposed to FX fluctuation risks, as it make purchases in USD and sells it at INR prices in the domestic markets. Further, counterparty risk can also arise as the firm deals with few major customers located at Kandla port. In the event of these customers failing to take delivery or delay in making payments, the Group's receivable levels may increase significantly over the medium term.

Liquidity(below average): Liquidity position of the firm is below average as it reported high trade payables against the current assets (excluding short-term loans & advances) available coupled with significant amount of funds being extended to its various group entities during FY19. Cash & Cash equivalents (including fixed deposits) reported to be around Rs. 16.10 Cr (P.Y. Rs. 27.14 Cr) during FY19. It has availed working capital limit of Rs. 10 Cr (sanctioned amount) with average utilization of 75-85% over the past six months. The firm avails mainly LC's (Non Fund Based limits) for its operations with usance period of 180 days. The ability of the firm to make funds available as and when FLC's gets due remain the key rating sensitivity.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **AB Chem (India)'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the firm improve its turnover and profitability levels, fully liquidate advances extended to various entities over the past three years and improve its liquidity position. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

AB Chem (India) was incorporated as a partnership firm in 2007. It is a part of the Homeland group. The partners of the firm are Mr Bishnu Kumar, Mr Deepak Goyal, Ms Renu Jindal and Mr Umang Jindal (nephew of Mr Deepak Goyal) and profit sharing ratio is 20%, 20%, 40% & 20% respectively. The firm is engaged in the manufacturing of pesticides, insecticides and crop saving material, and has its manufacturing facilities in Sambha, Jammu. In addition to this, the firm is also engaged in high seas trading of edible oils, whereby it imports crude palm oil (CPO) and sells it to the domestic oil refining companies. Firm's pesticides manufacturing unit has an installed capacity of about 16660 KL per annum and is being operated at 85-90% of its installed capacity.

Firm's Financial Performance

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	Rs. Crores	411.10	412.54
EBITDA	Rs. Crores	6.95	3.20
PAT	Rs. Crores	3.26	4.54
Total Capital	Rs. Crores	27.65	25.51
Total Debt/Total Capital	Times	1.18	1.95
ISCR	Times	2.23	3.80

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type	Amt (₹ Crs)	Rating	21 May 2018	10 May 2017	18 Dec 2015
1	Fund Based Cash Credit	Long Term	10.00	BWR BBB (BWR Triple B) (Stable) (Reaffirmed)	BWR BBB (BWR Triple B) (Stable) (Reaffirmed)	BWR BBB (BWR Triple B) (Stable) (Reaffirmed)	BWR BBB (BWR Triple B) (Stable)
2	Non Fund Based ILC/FLC	Short Term	87.00	BWR A3+ (BWR A Three Plus) (Reaffirmed)	BWR A3+ (BWR A Three Plus) (Reaffirmed)	BWR A3+ (BWR A Three Plus) (Reaffirmed)	BWR A3+ (BWR A Three Plus)
Total			97.00	₹ Ninety Seven Crores Only			

Status of non-cooperation with previous CRA - N.A.

Any other information: Nil



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)
- [Short Term Debt](#)

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



DISCLAIMER

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