



Rating Rationale

AB Chem India

21 May 2018

Brickwork Ratings reaffirms the ratings for the bank loan facilities aggregating Rs. 100 crores of AB Chem India (AB Chem or 'the Firm').

Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating ¹	
	Previous	Present		Previous	Present
Fund Based Cash Credit	10.00	10.00	Long Term	BWR BBB (Pronounced BWR Triple B) (Outlook Stable)	BWR BBB (Pronounced BWR Triple B) (Outlook Stable) (Reaffirmed)
Non Fund Based LC/FLC Derivatives	87.00 3.00	87.00 3.00	Short Term	BWR A3+ (Pronounced BWR A Three Plus)	BWR A3+ (Pronounced BWR A Three Plus) (Reaffirmed)
Total	Rs. 100.00 Crores (INR One Hundred Crores Only.)				

¹Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Long Term Rating reaffirmed at BWR BBB (Stable outlook). Short Term Rating reaffirmed at BWR A3+.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the firm's audited financial results upto FY17, projected financials for FY18 and FY19, publicly available information and clarifications provided by the Firm.

The ratings draw strength from the promoters' extensive business experience with established track record in this sector, continuous increase in production levels at Jammu unit, comfortable interest coverage ratios, adequate liquidity position of the Firm with absence of any secured interest-bearing term loans and comfort drawn from its group support in terms of operational and financial synergies, besides satisfactory feedback from the lenders.



The ratings, however, factor in the decline in profitability levels owing to subsidies withdrawn for its Jammu unit, exposure to risks arising from raw material price fluctuations, forex risks, commodity risks besides risks of regulatory changes in a highly competitive and fragmented industry and constitution being partnership firm.

Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: The Firm benefits from the long term experience of the promoters in this sector. The key partners of the firm are Mr. Bishnu Kumar and Mr. Deepak Goyal who oversee the overall business of the Firm.

Improvement in production levels: The Firm undertook capacity expansion at its Jammu plant during 2016 by increasing total installed capacity of liquid segment from 6240KL to 12629 KL/Annum, 432MTPA to 874MTPA for powder segment and 1560MTPA to 3157MTPA for granules. There was consistent improvement in its production levels year-on-year, driven by the market demand. Presently, the unit is running at capacity utilization levels of 71%, 67% and 80% for liquid, powder and granules segments respectively.

Comfortable coverage ratios: Despite increase in gearing profile, the Firm had comfortable ISCR and DSCR of 8.23x and 1.27x, respectively during FY17. It has not availed any interest-bearing debt apart from Cash Credit limit of Rs. 10 Crs. The Firm usually avails non- fund based limits for its trading operations with usance period of 180 days.

Group Support: The Firm is a part of the “Homeland Group”, based in Bathinda which provides business synergies and financial support. The group comprises diversified businesses including trading of edible oils, agro based business, pesticides etc. It has reported a turnover of Rs. 1064.40 Crs (FY16: Rs. 922.14 Crs) with a TNW of Rs. 75.30 Crs during FY17.

Credit Weaknesses

Low profitability margins: The Firm’s profitability margins went down significantly post-GST implementation along with subsequent withdrawal of subsidies by the J&K government during FY18. PAT margin is expected to remain at the same level for FY19 as well.

Exposure to risks arising from price fluctuation, forex risks, counterparty risks & regulatory changes: In case of high-seas or merchant trade, there is a time gap between imports and actual sales made, which is likely to lead to significant price fluctuation issues. The Firm is also exposed to forex fluctuation risks, as it makes purchases in USD and sells it at INR prices in the domestic market. Further, counterparty risk is also likely to arise as the Firm deals with few major customers located at Kandla port. In the event of these customers failing to take delivery or delaying in making payments, the Group’s receivable levels might increase significantly over the medium term.

Partnership nature of Constitution: AB Chem India, being a partnership firm, is exposed to inherent risk of the capital being withdrawn at time of personal contingency and Firm being dissolved upon the incapacitation of a partner. Further, a partnership firm has restricted access



to external borrowings as credit worthiness of the promoter/partners could be a key factor affecting credit decision for the lenders. There is an instance of capital being withdrawn during FY17; consequent to the resignation of Ms. Uma Jindal and Mr. Deepak Goyal as partners from the Firm.

Analytical Approach

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes **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 increase its revenues & profitability levels significantly along with maintaining coverage ratios over the medium term. 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), incorporated as a partnership firm in 2007. It is a part of the Homeland Group instead of Jindal Oil Group as Ms. Renu Jindal and Mr. Umang Jindal (key promoters of Jindal Oil Group) resigned from the Firm on 01.12.2016. H.L. Crop Science P. Ltd. (owned by Homeland promoters) became a new partner with a shareholding of 20%.

The Firm is engaged in the manufacturing of pesticides, insecticides & crop saving material and has its manufacturing facility in Sambha, Jammu. Total installed capacity of the unit is 12629 KL/Annum for Liquid segment, 432 MTPA for Powder segment & 1560 MTPA for Granules during FY18. In addition to this, it is also engaged in high seas trading, whereby it imports crude palm oil (CPO) and sells it to the domestic oil refining companies. It contributes ~ 60% of the total turnover generated during FY17.

Firm Financial Performance

The Firm has reported a total operating income of Rs. 416.27 Crs in FY17 as against Rs. 360.07 Crs in FY16 and further estimates to achieve around Rs. 403.87 Crs for FY18. It has reported a net profit of Rs. 4.54 Crs during FY17 as against Rs. 2.77 Crs during FY16. However, net profit is expected to decline owing to withdrawal of subsidies for its Jammu unit. The total capital of the firm stood at Rs. 25.51 Crs against the total debt of Rs. 49.79 Crs (includes interest-free USL of ~ Rs. 39 Crs) during FY17.



Key financial indicators are summarized below.

Particulars	FY16 (A)	FY17 (A)
Total Operating Income (Rs. Crs)	360.07	416.27
EBITDA (Rs. Crs)	11.39	6.93
PAT (Rs. Crs)	2.77	4.54
Total Partner's Capital (Rs. Crs)	33.98	25.51
Gearing (TOL/Total Partner's Capital) Ratio (times)	3.40	4.90
ISCR (times)	3.98	8.23

Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No	Facility	Current Rating (FY18)			Rating History		
		Type	Amount (Rs Crs)	Rating	FY17	FY16	FY15
1	Fund Based Cash Credit	Long Term	10.00	BWR BBB (Stable) (Reaffirmed)	BWR BBB (Stable) (Reaffirmed)	BWR BBB (Stable) (Upgrade)	BWR BBB – (Stable)
2	Non Fund Based ILC/FLC Derivatives	Short Term	87.00 3.00	BWR A3+ (Reaffirmed)	BWR A3+ (Reaffirmed)	BWR A3+ (Upgrade)	BWR A3
Total			100.00	INR One Hundred Crores Only			

Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website



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For print and digital media

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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, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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