

## Rating Rationale

**Brickwork Ratings revises the rating to ‘BWR BBB’ & ‘BWR A3+’ for the bank loan facilities aggregating ₹100.00 Crs of AB Chem India (‘ABCI’ or ‘the Firm’).**

Brickwork Ratings has revised the **Ratings<sup>1</sup>** for the bank loan facilities of ABCI as follows:

Facility	Previous Amt. (₹Crs)	Present Amt. (₹Crs)	Tenure	Ratings History	Ratings <sup>1</sup>
<b>Fund Based</b>					
Cash Credit	5.00	10.00	Long Term	<b>BWR BBB –</b> (BWR Triple B Minus) <b>Outlook: Stable</b> <b>October 2014</b>	<b>BWR BBB</b> (BWR Triple B) <b>Outlook-Stable</b>
<b>Non - Fund Based</b>					
ILC/FLC	50.00	87.00	Short Term	<b>BWR A3</b> (BWR A Three) <b>October 2014</b>	<b>BWR A3 +</b> (BWR A Three Plus)
Derivative Limit	0.00	3.00			
<b>Total</b>	<b>55.00</b>	<b>100.00</b>	<b>₹100.00 Cr (INR Hundred Crores Only)</b>		

BWR has principally relied upon the audited financials of the firm up to FY15, projected financials up to FY16, publicly available information and information/clarifications provided by the firm.

The ratings continue to draw comfort from the extensive experience of promoters in the industry, good revenue visibility with healthy order book position in FY16, comfortable financial risk profile backed by adequate partner’s capital and absence of any term debt, strategic location of the pesticide plant with respect to tax advantage, diversified revenue profile, strong liquidity position with a negative conversion cycle in FY15 and enhancement of its current capacity, entirely funded by the promoter’s contribution.

However, the rating is partially constrained by decline in net margins due to foreign exchange differences, limitation of partnership concern and highly fragmented & competitive industry.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

## **Background**

ABCI was incorporated as a partnership firm in the year 2007. The existing partners are Mr Bishnu Kumar, Mr Deepak Goyal, Ms Renu Jindal and Mr Umang Jindal.

The Firm is primarily engaged in the manufacturing of pesticides, insecticides and agro-chemicals. The manufacturing facility of ABCI is located in Sambha, Jammu with the installed capacity of about 10862 tonnes per annum (increased from 6860 tonnes per annum) during FY15. Being located in Jammu, the firm enjoys fiscal benefits available to it by virtue of its location of manufacturing facility in a tax-free zone. The firm is exempted from excise duty till FY18.

In addition, ABCI is also engaged in high seas trading, whereby it imports crude palm oil (CPO) and sells it to the domestic oil refining companies. However, the manufacturing activity takes precedence.

## **Management**

Mr Bishnu Kumar, partner of the firm, is also the director of GI Industries Private Limited (established in 1975), which is involved in the processing of mustard seeds and refining of edible oil and trading of crude palm oil (mainly on high seas basis). He has been in the industry for the past 37 years. Mr Deepak Goyal holds an MBA degree and has been with the Firm for the past three years. He is primarily looking after the marketing functions; ABCI stands to benefit from extensive experience of its promoters.

The promoters also have experience in managing other group companies. Though ABCI was engaged in manufacturing pesticides since 2009, the promoters identified business opportunity by way of trading crude palm oil and have been trading since FY10. The partners of ABCI have other business interests in solvent extraction, cattle feed, real estate, etc.

## **Financial Performance**

ABCI recorded a 66.32% increase in net sales from ₹168.57 Crs in FY14 to ₹280.36 Crs in FY15. Net profit improved to ₹8.30 Crs in FY15 as against ₹7.03 Crs in FY14. The partner's capital of the firm improved to ₹31.00 Crs in FY15 from ₹27.37 Crs in FY14. Debt-Equity ratio improved from 0.45 times in FY14 to 0.28 times in FY15.

## **Rating Outlook**

ABCI has diversified its revenue profile by also engaging in high seas trading from the past three years. Trading segment contributes 49.20% of the total sales in FY15.

It has also managed to increase its market presence and added more customers in the domestic market. But, the firm was not able to achieve its projected turnover due to delay in the sanctioning of additional LC's by the bank.

The outlook is expected to be stable over the current year. Going forward, the ability of the firm to maintain its top line for both manufacturing and trading segment, improve its profitability by reducing forex risks and maintain its financial risk profile would be the key rating sensitivities.

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