

Rating Rationale

Brickwork Ratings assigns ‘BWR BBB-’ & ‘BWR A3’ for the Bank Loan Facilities aggregating ₹ 55.00 Cr of AB Chem (India).

Brickwork Ratings (BWR) has assigned the following **Ratings¹** for AB Chem (*India*) (‘ABCI’ or ‘the Firm’) Bank loan facilities. Details are as under:

Facility	Present Limits (₹ Cr)	Tenure	Assigned Rating
Fund Based Cash credit	5.00	Long Term	BWR BBB- (Pronounced BWR Triple B Minus) (Outlook -Stable)
Non Fund Based Letter of Credit	50.00	Short Term	BWR A3 (Pronounced BWR A Three)
Total	55.00	(INR Fifty Five Crores only)	

BWR has essentially relied upon the audited financial results of ABCI up to FY14, projections for FY15, and information and clarifications provided by the management of the Firm.

The rating assigned derives comfort from healthy turnover since past 2 years and continuing growth in the current year, further satisfactory orders in hand, partners ability to infuse capital as per requirement, strategic location of the unit leading to tax advantage, diversified product profile, strong marketing network, comfortable financial risk profile marked by moderate gearing and good debt protection indicators, hedging strategy of the Firm which covers forex exposure fully.

However the rating is constrained by vulnerability of sales to agro climatic conditions for pesticides and Firm’s presence in a highly fragmented and competitive insecticide and pesticide industry.

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.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The Firm is primarily engaged in the manufacturing of pesticides, insecticides and agro-chemicals. The manufacturing facility of ABCI is located in Sambha, Jammu. The installed capacity of unit is about 6860 tonnes per annum. 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 Profile

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

Moderate financial risk profile reflected by constant growth in revenues, improving profitability margins, comfortable gearing and operating cycle.

The total operating income has been growing at a CAGR of approx 35.85% backed by growth in both the pesticide segment and trading segment. The total income grew by approximately 30% to ₹ 177.40 Crores in FY14 led by increase in manufacturing vertical.

In FY14, the operating profit improved to ₹ 5.88 Crs and the net profit improved to ₹ 7.03 Crs (compared to ₹ 5.82 Crs in FY13).

The sales recorded by firm as on 25th Sept 2014 was ₹ 205.53 Crores with PBT at ₹ 7.65 Crs reflecting robust growth in the turnover as projected for FY15.

Rating Outlook

Going forward the firm's ability to maintain the growth momentum in turnover along with improvement in the profitability, further capital infusion to improve the capital structure and sustaining the forex risk cover through hedging are the key rating sensitivities.

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