



Rating Rationale

AB Chemicals India Pvt. Ltd.

29 May 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 45 Crores of AB Chemicals India Pvt. Ltd ('ABC' or 'The Company')

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2018)	Present
Fund based Cash Credit	2.00	2.00	Long Term	BWR BBB - (Pronounced as BWR Triple B Minus) Outlook: Stable	BWR BBB - (Pronounced as BWR Triple B Minus) Outlook: Stable (Reaffirmation)
Non Fund Based ILC/FLC	43.00	43.00	Short Term	BWR A3 (Pronounced as BWR A Three)	BWR A3 (Pronounced as BWR A Three) (Reaffirmation)
Total	45.00	45.00	INR Forty Five 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/Description of Key Rating Drivers/Rating sensitivities:

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

The ratings draw strength from the promoters' experience, with established track record in this sector, moderate gearing, comfort drawn from its group support in terms of operational and financial synergies and satisfactory feedback from its existing lenders. BWR notes that the Company infused additional capital which resulted increase in its tangible net worth position during FY18.

The ratings, however continue to factor in the lower net profit margins being trading nature of business, exposure to risks arising from price fluctuations, forex risks, commodity risks and regulatory changes besides a highly competitive industry due to fragmentation.



Description of Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: The company belongs to the Homeland Group which benefits from the long term experience of the promoters in this sector. The directors of the Company are Mr. Kapil Romana and Mr. Deepak Goyal. Currently, the marketing and material procurement of Homeland Group is being managed by these directors.

Comfortable gearing profile: There were no secured term loans apart from vehicle loans reported in FY18. It has availed CC limit of Rs. 2 Cr (sanctioned amount) but largely utilize Non Fund Based limits only for its operations with usance period of 180 days. Gearing profile and its tangible networth position improved further as USL of Rs. 5 Cr given to the Company were converted into capital during FY18.

Group Support: The Company is a part of the “Homeland Group”, based in Bathinda which provides business synergies and financial support. Homeland Group comprises diversified businesses including real estate development, trading of edible oils, manufacturing of agro commodities and fertilizers & pesticides etc.

Credit Risks:

Low profitability levels: Net profit margins continue to remain low owing to trading nature of its business. The net profit margins of the Company remains at 0.32% during FY18.

Exposure to risks arising from price fluctuations, 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 may lead to a significant price fluctuation problems. The Company is also exposed to FX fluctuation risks, as it make purchases in USD and sells it at INR prices in the domestic market. Further, counterparty risk can also arise as the Company 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 position of the Company

Liquidity position of the Company remains at moderate levels considering minimum requirement of fund based limits for this type of trading business. The Company avails mainly foreign letters of credit (FLC) for its operations with usance period of 180 days. In this trade, the Company usually get payments from its customers before FLC’s due dates and thus is able to utilize funds for their other means. Hence the ability of the Company to make funds available as and when FLC’s get due remain the key rating sensitivity. Cash & Cash equivalents (including fixed deposits) stood at Rs. 12.12 Cr (P.Y. Rs. 14.51 Cr) for FY18.



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 Chemicals India Pvt. Ltd.**'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 Company increase turnover levels by significant numbers and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

AB Chemicals India Pvt Ltd (ABC) was incorporated in Sept 2012 at Bathinda, Punjab, and commenced its business operations in Dec 2013. The Company is a part of the "Homeland Group", based in Bathinda which is engaged in the import of edible oil such as crude palm oil (CPO) etc. and sells in domestic market on high seas sale basis (80%) and merchant trading basis (20%). The Company is promoted by Mr. Kapil Romana and Mr. Deepak Goyal. Currently, the marketing and material procurement of Homeland Group is being managed by the above said directors. The Company belongs to the Homeland Group which comprises of diversified businesses including trading of edible oils, agro based business, pesticides etc

Company's Financial Performance

The Company has reported a total operating income of Rs. 107.86 Cr in FY18 as against Rs. 107.05 Cr in FY17. It has reported a net profit of Rs. 0.35 Cr during FY18 as against Rs. 0.34 Cr during FY17. The total tangible net worth of the Company stood at Rs. 15.38 Cr in FY18.

As per the information submitted by the management, the Company has achieved total operating income of Rs. 113.42 Crs with PBT of Rs. 0.55 Cr during FY19. TNW and gearing ratio is estimated to be Rs. 15.80 Crs and 0.09x, respectively in FY19.

Key financial indicators of AB Chemicals India Pvt Ltd are summarized below:

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	Rs. Crores	107.86	107.05
EBITDA	Rs. Crores	1.70	1.50
PAT	Rs. Crores	0.35	0.34
Tangible Net worth	Rs. Crores	15.38	10.03

Total Debt/Tangible Net worth (Analyzed)	in Times	0.01	0.50
Current Ratio	in Times	1.33	1.35

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	05 Feb 2018	14 Mar 17	14 April 2016
1	Fund Based Cash Credit	Long Term	2.00	BWR BBB- (BWR Triple B Minus)	BWR BBB- (BWR Triple B Minus)	BWR BB+ (BWR Double B Plus)	BWR BB (BWR Double B)
2	Non Fund Based ILC/FLC	Short Term	43.00	BWR A3 (BWR A Three)	BWR A3 (BWR A Three)	BWR A4+ (BWR A Four Plus)	BWR A4 (BWR A Four)
Total			45.00	₹ Forty Five Crores Only			

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

Any other information: Nil

Annexure I - Instrument/Bank Facility Details

ISIN	Instrument/Facility	Date of Sanction	Coupon Rate	Maturity Date	Amt. in Rs. Cr	Current Rating & Outlook
-	Fund Based	-	-	-	2.00	BWR BBB- (Stable)
-	Non Fund Based	-	-	-	43.00	BWR A3

Annexure II

S.No.	Companies/Firms under Homeland Group
1	AB Chem India
2	AB Chemicals India P Ltd
3	HM Overseas P Ltd
4	AB Crops P Ltd
5	AB Infra Investments P Ltd
6	AB World Trade P Ltd
7	GH Crop Science P Ltd
8	GI Industries P Ltd
9	Farming Resources LLP

Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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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.

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