

Rating Rationale

Arochem Industries Private Limited

27th November 2017

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs. 15.85 Crs of Arochem Industries Private Limited.

Particulars

Facility Rated	Amount (Rs. Crs)	Tenure	Rating*
Fund Based			
Term Loan	3.20	Long Term	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable
Line of Credit **	12.65		
Total	15.85	Rupees Fifteen Crores Eighty Five Lakhs Only.	

** Note: Line of credit is being availed by way of Cash Credit, Packing Credit, Foreign Bill Purchase and Letter of Credit aggregating to Rs. 12.65 crs

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial statements of Arochem Industries Private Limited up to FY17, projected financial statements of FY18 & FY19 and publicly available information and information / clarification provided by the Company's management.

The rating derives comfort from promoters' experience of more than three decade in chemical industry, moderate financial risk profile and diversified customer base. The rating is however constrained by modest scale of operations, working capital intensive operations and stretched liquidity position, profit susceptibility to fluctuations in raw material prices, high degree of competition and foreign exchange fluctuation risk.

Going forward, the company's ability in consistently achieving projected revenue, the ability of the management to infuse capital and manage its working capital efficiently will be the key rating sensitivities.

Key Rating Strengths:

Established track record of operations and experienced management: Company is into chemical business since 1962. The promoters possess extensive experience in the industry and day-to-day operations are managed by Mr. Nilesh Gandhi, having experience of more than three decades.

Moderate financial risk profile: Company's financial risk profile is moderate marked by net worth of Rs. 14.84 cr in FY 17 as against Rs. 13.35 cr in FY 16. Company's gearing (debt-equity ratio) which stands at 0.81 in FY 17 as compared to 0.51 in FY 16. Company's coverage indicators are moderate with interest service coverage ratio (ISCR) of 2.54 times in FY 17.

Diversified Clientele Base: The company have diversified customer base, with top 5 customer's contributing only 30% of sales, reflecting low customer's concentration. The company has shown good track of adding incremental customers, resulting healthy/strong growth in operations over past years.

Key Rating Weakness:

Modest scale of operations: It has achieved an operating revenue of Rs. 36.97 cr as per audited financial FY17.

Working capital intensive operations and stretched liquidity position: Company's operations is working capital intensive with receivable days and inventory days at 52 and 89 respectively as against payable days of 54 days. Further, liquidity position of the company is stretched denoted by current ratio stood low at 1.07 as on 31st March, 2017.

Profit susceptibility to fluctuations in raw material prices: The raw material for manufacturing dye intermediates are downstream petrochemical products and therefore vulnerable to volatility in crude oil prices. The profitability is susceptible to volatility in raw material prices.

High degree of competition: The company is exposed to intense competition in the industry. High fragmentation limits the pricing flexibility and bargaining power of mid-sized players.

Foreign exchange fluctuations risk: As the company is engaged in exporting it is exposed to inherent risk of fluctuation in foreign exchange.

Rating Outlook: Stable

BWR believes the **Arochem Industries Private Limited** 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 revenues 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

Arochem Industries Private Limited (AIPL) started in 1962 as a partnership firm, converted to private limited company in 2014, is engaged in manufacturing of dye intermediates (Resist Salt, Metanilic Acid, 3'3' Dinitro Dphenyl Sufone) used primary in textile industry and to some extent in the aerospace industry. The directors of company are Nilesh Gandhi, Milan Thakkar, and Manish Gandhi. AIPL is a recognised as 'One Star Export House' by the Indian Government – Ministry of Commerce & Industry. AIPL is a member of Vapi Green Enviro

Ltd (VGEL). VGEL has installed common effluent treatment plant etc at AIPL's factory location.

Company Financial Performance

In FY17, revenue and PAT of Arochem Industries Private Limited stood at Rs. 36.97 cr and Rs. 1.48 cr respectively, compared to Rs. 29.68 cr and Rs. 0.94 cr respectively in FY16. Networth of the company increased from Rs. 13.35 cr in FY16 to Rs. 14.84 cr in FY17 mainly on account of retaining profit in the business.

Key Performance Indicators			
Particulars	Unit	FY16 (A)	FY17 (A)
Net Sales/Revenue	Rs. Crores	29.68	36.97
EBITDA	Rs. Crores	0.80	2.13
PAT	Rs. Crores	0.94	1.48
Tangible Networth	Rs. Crores	13.35	14.84
Total Debt/TNW	Times	0.58	0.81
Current Ratio	Times	1.14	1.07

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

SI. No.	Instrument / Facility	Current Rating (Year 2017)			Rating History		
		Type	Amount (Rs in Cr)	Rating	2016	2015	2014
1)	Term Loan	Long Term	3.20	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable	NA	NA	NA
2)	Line of Credit **	Long Term	12.65		NA	NA	NA
Total		15.85 Rupees Fifteen Crores Eighty Five Lakhs Only					

** Note: Line of credit is being availed by way of Cash Credit, Packing Credit, Foreign Bill Purchase and Letter of Credit aggregating to Rs. 12.65 crs



Status of non-cooperation with previous CRA (if applicable): NA

Hyperlink/Reference-to-Applicable-Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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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.

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