RATING RATIONALE

13 Sept 2019

Modern Chemicals

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹. 21 Crores of Paswara Chemicals

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (May, 2018)	Present
Fund based	5	5	Long Term	BWR BB- Stable	BWR BB- Stable (Reaffirmation)
Non-fund based	16	16	Short Term	BWR A4	BWR A4 (Reaffirmation)
Total	21	21	INR Twenty One Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

RATING ACTION / OUTLOOK

BWR has reaffirmed the rating of Modern Chemicals to BWR BB- with a stable outlook and BWR A4 in view of the extensive experience of the management and presence of the firm in the chemical industry for more than three decades, average debt protection metrics and satisfactory conduct of account.

KEY RATING DRIVERS

- **Credit Strengths:**

Extensive experience of management: The company was promoted by Mr Rajeshwar Prasad Agarwal and his late brother Mr Ramavtar Aggarwal, and is now managed by Mr Arvind Kumar Agarwal, Mr Kapil Kumar Agarwal, and Mr Vinod Kumar Agarwal, the second generation of the promoter family. The promoters have been in the paper and chemicals businesses since 1980. Their business experience has helped them in maintaining long term relationship with their clients.

- **Credit Risks:**

Declining Revenue of the firm: The total operating income has declined by 56% from Rs. 29.55 Cr. in FY18 to Rs. 16.41 Cr. in FY19 due decrease in import purchases as a result of increase in dollar rates. However, the prices of traded goods have declined in international markets, as a result of which the firm has increased its imports in FY20 and achieved a turnover of Rs. 14.73 Cr by Aug 2019. The firm is targeting to achieve a turnover of Rs. 50 Cr by the end of FY20.

Competitive industry: Chemical trading industry being a highly fragmented industry, is characterized by intense competition from various large and small players. The increased competition limits the bargaining power of the firm.

Stretched conversion cycle: The conversion cycle of the firm has increased from 100 days in FY18 to 197 days in FY19 due to increased receivables of 218 days in FY19. The stretched conversion cycle eventually lead to create a stretched liquidity position for the firm.

Exposed to risk of fluctuation in foreign currency rates: The firm is involved in the import of material from foreign countries. However, they don't have any hedging policy in place which expose them to the risk of fluctuation in foreign currency rates as evidenced by the loss on foreign exchange amounting to Rs. 0.92 Cr incurred in FY19.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered standalone financials of Modern Chemicals. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward the ability of the firm to achieve the projections, strengthen the liquidity position and improve profitability margins and overall financial risk profile will be the key rating sensitivities.

Positive: The rating may be upgraded in case of substantial improvements in the scale of operations and increase in profitability margins, along with improvements in financial risk profile.

Negative: The rating may be downgraded in case of further deterioration in revenue of the company or any adverse movements in profitability margins.

LIQUIDITY POSITION: Stretched

The net cash accruals are low at Rs. 0.99 Cr. The liquid assets are also low at Rs. 0.02 Cr. in FY19. Though the current ratio of the firm stood above the benchmark at 1.86 times in FY19, the conversion cycle of the firm is high at 197 days in FY19 due to high receivables of 218 days in FY19. The firm is currently utilizing almost 98% of their sanctioned working capital limits. The debt protection metrics is moderate with an ISCR of 1.96 times in FY19.

COMPANY PROFILE

The company was promoted by Mr Rajeshwar Prasad Agarwal and his late brother Mr Ramavtar Aggarwal, and is now managed by Mr Arvind Kumar Agarwal, Mr Kapil Kumar Agarwal, and Mr Vinod Kumar Agarwal, the second generation of the promoter family. The promoters have been in the paper and chemicals businesses since 1980. Modern Chemicals (MC) trades in petroleum products and chemicals such as crude glycerine, thinner, bitumen, heavy cut oil.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	16.41	29.55
EBITDA	₹ Cr	1.80	0.81
PAT	₹ Cr	0.07	0.03
Tangible Net worth	₹ Cr	2.87	2.79
Total Debt/Tangible Net worth	Times	2.28	4.02
Current Ratio	Times	1.86	1.47

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Instrument / Facilities	Current Rating (Sep 2019)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	May, 2018	2017	2016
Fund Based	Long Term	5	**BWR BB- Stable**	**BWR BB- Stable**	**N/A**	
Non-fund Based	Short Term	16	**BWR A4**	**BWR A4**		
Total		21	INR Twenty One Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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Paswara ChemicalsP

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Union Bank of India	Cash Credit	5	-	5
2		Import LC	-	16	16
TOTAL					21

Total Rupees Twenty One Crores only.

For print and digital media

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DISCLAIMER

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