

Rating Report

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

Brickwork Ratings has revised the **Ratings¹** for the bank loan facilities of ABCI as follows:

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

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.

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

Background

ABCI was constituted 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 at Sambha, Jammu, with the installed capacity of about 10,862 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.

Recent Updates

- Changes in the Bank Exposure: In the current financial year, ABCI has enhanced its cash credit limit from Rs. 5.00 Cr to Rs. 10.00 Cr, Inland/Import LC from Rs. 50.00 Cr to Rs. 87.00 Cr and availed additional derivative limit of Rs. 3.00 Cr for the purpose of hedging trade related exchange risks.
- Significant Improvement in its Top Line Growth – ABCI's turnover has increased significantly by 66.32% during FY15, led by growth in both the pesticide segment and trading segment.

Segment (in Rs. Cr)	FY 14	FY 15	% change
Trading	54.2	137.94	154.50%
Manufacturing	114.37	142.42	24.53%
TOTAL	168.57	280.36	66.32%

- Increase in Partner's Capital – The partner's capital has increased from Rs. 27.37 Cr in FY14 to Rs. 31.00 Cr in FY15 due to additional funds infused by the promoters and accretion to reserves & surplus. As per C.A. Certified copy dtd. 07.08.2015, the total partner's capital and interest free unsecured loans as on 05.08.2015 exists at Rs. 40.44 Crs and Rs. 12.45 Crs, respectively.
- Gearing Levels – ABCI has comfortable financial risk profile, backed adequate partner's capital and absence of any term debt borrowings. The firm has reported Debt Equity of 0.28 times in FY15, but the same is expected to increase on account of enhancement made in its Cash Credit limit by Rs. 5.00 Cr. Non Fund Based Limits contributes 90% of the total limits and the Company has adequate internal accruals to meet its financial costs.
- Comfortable Debt Protection Metrics – ABCI's debt protection metrics is at comfortable level, with net cash accruals to total debt and interest coverage at 158% and 8.37 times, respectively. With expected increase in bottom line, the firm's debt protection metrics are expected to remain comfortable over the medium term.
- Negative Conversion Cycle during FY15 - Strong liquidity position with a negative conversion cycle of 14 days in FY15 (Current Ratio is 1.37 times in FY15). Gross Current assets of the firm has decreased significantly from 133 days in FY14 to 74 days in FY15. The reason for negative conversion cycle is a significant improvement in its sales realization. Inventory holding period and trade payable days remain approximately at the same level of FY14.

Financial Performance

ABCI recorded a 66.32% increase in net sales from Rs. 168.57 Crs in FY14 to Rs. 280.36 Crs in FY15. Net profit improved to Rs. 8.30 Crs in FY15 as against Rs. 7.03 Crs in FY14. The partner's capital of the firm improved to Rs. 31.00 Crs in FY15 from Rs. 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.

However, net margins decline from 3.96% to 2.83% due to forex exchange differences of Rs. 4.55 Cr. It is the amount of premium being paid by the firm on account of hedging of currency which is part of ABCI's costing. Now, for hedging trade related exchange risks, ABCI has availed additional derivative limit of Rs. 3 Cr.

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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AB Chem (India)
Annexure I – Profit & Loss Account

Particulars (in Rs. Cr)	FY12	FY13	FY14	FY15
Result Type	Audited	Audited	Audited	Audited
Gross Sales	98.05	131.31	168.57	280.36
Traded Goods Sales	0.00	0.00	0.00	0.00
Net Sales	98.05	131.31	168.57	280.36
Other Operating Income	0.00	5.60	0.00	12.93
Total Operating Income	98.05	136.92	168.57	293.30
Operating Expenses	87.42	137.84	171.52	280.15
OPBDIT	10.63	-0.92	-2.95	13.15
Depreciation	0.45	0.44	0.55	0.98
OPBIT	10.18	-1.37	-3.50	12.17
Interest and Finance Charges	0.36	1.32	0.62	1.57
OPBT	9.81	-2.69	-4.11	10.60
Non Operating Income(Expenses)	2.59	8.51	11.15	-2.30
PBT	12.41	5.82	7.03	8.30
Provision for Taxes	0.00	0.00	0.00	0.00
PAT	12.41	5.82	7.03	8.30

AB Chem (India)
Annexure II – Balance Sheet

Particulars (in Rs. Cr)	FY12	FY13	FY14	FY15
Result Type	Audited	Audited	Audited	Audited
Liabilities				
EQUITY AND RESERVES	18.10	20.50	27.37	31.00
Partner's Capital	5.69	14.67	20.34	22.73
Reserves and Surplus	12.41	5.82	7.03	8.26
Non-current liabilities	0.95	0.00	7.34	4.50
Long-Term Borrowings	0.95	0.00	7.34	4.50
Current liabilities	43.62	34.58	72.66	74.02
Short-Term Borrowings	1.50	1.65	5.01	4.24
Current Portion Of Long Term Debt	0.00	0.00	0.00	0.00
Trade Payables	42.05	32.79	67.52	69.58
Other Current Liabilities	0.07	0.06	0.11	0.17
Short-Term Provisions	0.01	0.09	0.03	0.02
Total Liabilities	62.67	55.08	107.38	109.51
ASSETS				
Non-current assets	3.43	3.25	4.80	8.40
Net Fixed assets	3.43	3.25	4.80	8.40
Non Current Investments	0.00	0.00	0.00	0.00
Long Term Loans and Advances	0.00	0.00	0.00	0.00
Current assets	59.24	51.84	102.58	101.12
Current Investments	0.00	0.00	0.00	0.08
Inventories	10.29	5.44	16.12	26.22
Trade Receivables > Six Months	0.00	0.00	0.00	0.00
Trade Receivables < Six Months	22.67	38.15	63.07	7.99
Cash and Cash Equivalents	23.49	6.43	17.58	13.69
Short-Term Loans and Advances*	2.74	1.77	5.76	53.06
Other Current Assets	0.05	0.05	0.05	0.08
Total Assets	62.67	55.08	107.38	109.51

AB Chem (India)
Annexure III – Ratio Analysis

Particulars	FY12	FY13	FY14	FY15
Result Type	Audited	Audited	Audited	Audited
Total Debt	2.45	1.65	12.35	8.74
Partner's Capital	18.09	20.50	27.37	31.00
Capital Employed	20.54	22.15	39.72	39.74
Total Debt/TNW	0.14	0.08	0.45	0.28
TOL/TNW	2.46	1.69	2.65	2.39
ISCR	29.16	-0.70	-4.79	8.37
DSCR	22.99	5.21	13.33	4.14
Net Cash Accruals/Total Debt	5.26	3.80	0.59	1.58
Net Profit Margin	12.65	4.25	4.17	2.83
Operating Profit Margin	10.84	-0.67	-1.75	4.48
ROCE	66.84	-6.40	-11.31	30.63
Current Ratio	1.36	1.50	1.41	1.37
Days Receivables	63	85	110	46
Days Inventory	30	21	23	28
Days Payable	118	104	103	88
Conversion Cycle	-25	1	30	-14