

Rating Rationale

Brickwork Ratings assign ratings for Bank Credit Facilities aggregating ₹ 32.97 Crores of AB Chem (India) (ABCI)

Bank Loan Rating: BWR BB+/A4+

Outlook : Stable

Brickwork Ratings (BWR) has assigned the rating of '**BWR BB+**' (Pronounced BWR Double B Plus) with a stable outlook for the long term Bank credit facilities of Rs. 2.97 Crores and '**BWR A4+**' (Pronounced A Four Plus) for the Short term Bank credit facilities of Rs.30.00 Crores of AB Chem (India).

| <i>Facility</i> | <i>Limits (Rs. In Crs)</i> | <i>Tenure</i> | <i>Rating</i> |
|--|--|-----------------------|---|
| Fund Based- Working Capital/Term Loan | 2.97 | Long Term | BWR BB+/Stable (Pronounced BWR Double B Plus) (Outlook-Stable) <i>Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations</i> |
| Non Fund Based- Bank Guarantee | 30.00 | Short Term | BWR A4+ (Pronounced BWR A Four Plus) Outlook: Stable <i>Credit Facilities with this rating are considered to have moderate risk of default regarding timely payment of financial obligations.</i> |
| Total | 32.97 (INR Thirty Two Crores Ninety Seven lakhs only) | | |

BWR has principally relied upon the audited financial results up to FY12, projected financials of FY13 & FY 14 of AB Chem (India), publicly available information and information/clarification provided by the Company management.

The rating factors AB Chem (India)'s established position in the Agro-Chemical Industry & Crude Palm Oil trade, locational advantage of manufacturing unit of Agro-Chemical Industry which is strategically located in J&K, strong presence of their group company GH Crop Science (GHC) in Punjab, Haryana, Uttar Pradesh, and Uttarakhand, diversified product profile, strong revenue growth with improving

operating performance, improving debt service coverage ratio, improving capital structure with enhanced networth levels and decline in gearing.

The rating is constrained by risks involved in crude palm oil trade, customer concentration in manufacturing of agro-chemicals, decline in ROCE, and high competition in crude palm oil trade due to fragmentation. Cyclical nature of Agro-Chemical Industry leads to vulnerability of sales to agro climatic conditions, low capacity utilization of the manufacturing unit, foreign currency risks associated with trading business. The rating is also constrained by the fact that oil trade is less profitable as compared to the agro-chemicals and the firm is yet to define its strategy regarding the proportion of manufacture to trade.

Company Background

Set up as a partnership in 2008, ABCI manufactures pesticides and trades in crude palm oil. ABCI's pesticides manufacturing unit, located at Jammu, has capacity of about 6500 tons per annum. ABCI directly sells pesticides to customers as well as sells them through the marketing network of its group company, GHC. ABCI's trading business comprises importing of crude palm oil from South East Asian countries and selling them in the domestic market, mainly on high seas basis.

Incorporated in 2009, GHC undertakes marketing of ABCI's pesticides and also trades in crude palm oil. GHC has a pesticides dealership network of about 200 dealers, spanning across Punjab, Haryana, Uttar Pradesh, and Uttarakhand.

Management Profile

AB Chem(India), partners are Mr. Bishnu Kumar, with three decades of experience in Agro-Chemicals & Crude Palm oil, Mr. Deepak Goyal, with six years of Industry experience, Mrs. Renu Jindal, with six years of Industry experience & Mr. Umang Jindal, with two years of Industry experience. The management team is led by well qualified and experienced people working since long time in the industry.

Financial Performance

During the year FY 12, the company's operating income improved substantially by 88.22% Rs 98.05 Crores from Rs 52.09 Crores in FY 11. Operating profit margins declined to 13.49% compared to 18.71% in previous year. AB Chem (India) earned PAT of Rs. 12.41 Crores with PAT margins at 12.65% compared to PAT of Rs. 8.92 Crores with PAT margins at 17.12% in FY11. Gearing of the company was at 0.14x in FY 12 due to high net worth. Company's net cash accruals to debt increased to 5.26x compared to 2.43x in FY 11. Current Ratio improved to 1.36x in FY 12 from 1.20x in FY 11.

Results as on September 2012

AB Chem (India) reported net operating income of Rs. 68.67 Crores as on Sept 2012. Profits were recorded at Rs. 11.01 Crores with net profit margin at 16%. Gearing of the company remained at 0.25x driven by improved networth levels to Rs. 25.98 Crores led by capital infusion by the promoters.

Rating Outlook

AB Chem (India) is expected to continue healthy revenue development with improving margins by maintaining low operational cost and leading to improvement in cash accruals to meet its working capital obligations. The ability of the firm to strike a workable balance between the two divisions, while maintaining the growth trends, would be the key factors.

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| Analyst Contact | Relationship Contact |
| analyst@brickworkratings.com | bd@brickworkratings.com |
| Phone | Media Contact |
| 1-860-425-2742 | media@brickworkratings.com |

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