Press Release

Supreet Chemicals Private Limited

September 09, 2020

Rating

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action
Long term Fund Based Bank Facilities – Cash Credit	4.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	**Revised**
Short term Fund Based Bank Facilities – EPC/PCFC	10.00	IVR A3 (IVR Single A Three)	IVR A4+ (IVR Single A Four Plus)	**Revised**
Short Term Non-Fund Based Bank Facilities – LC/BG	11.00	IVR A3 (IVR Single A Three)	IVR A4+ (IVR Single A Four Plus)	**Revised**
Total	**25.00 (Twenty Five Crore)**			

Details of Facilities are in Annexure I

Detailed Rationale

The rating continues to derive strength from Experienced promoters and the management team, Robust Supplier network, Established relationship with reputed clientele and sales exposure to diversified industry segment and Improved Profitability along with comfortable debt protection parameters. However, these strengths are, partially offset by Profit susceptible due to fluctuation in raw-material cost and foreign currency risk, Working capital intensive nature of operations and Highly competitive industry.

Key Rating Sensitivities

Upward rating factor(s) – Substantial improvement in revenue and/or profitability margins and effective working capital management leading to sustained improvement in debt coverage indicators may lead to a positive rating action

Downward rating factor(s) – Any deterioration in revenue and/or profitability margin along with strengthening competition resulting in loss of business and leading to deterioration in debt coverage indicators may lead to a negative rating action

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and the management team

Mr. Harjindersingh Jaswantsingh Sarna, the managing director of the company, has an experience of more than two decades and is associated with the company since 1992. He is responsible for day to day operational affairs of the company. Mr. Manjeet Sarna is a chemical engineer and has 15 years of experience in chemical industry. He is responsible for matters related to technology up-gradation projects & is also looking after the development of business in the overseas market. Mr. Rajkumar Singh is science graduate with more than 30 years of experience in production of inorganic chemicals. The promoters are assisted in the day-to-day operations by a team of qualified and experienced professionals with extensive industry experience.

Robust Supplier network

The company has a good supplier network that includes both local and international players. Its top five suppliers constitute around ~40% of its total raw material purchases which indicates a moderately diversified supply network. Further, a majority of its local suppliers are located in its close vicinity i.e., Gujarat and Maharashtra region; which helps the company to save on logistics.

Established relationship with reputed clientele and sales exposure to diversified industry segment

The company has a well-established clientele with a mix of both local and international firms. It has successfully formulated a mutually enriching relationship with its customers over the years, which can be seen from the repeat orders generated by the company. Reputed firms like Huntsman International and IPCA Laboratories are associated with the company for more than a decade now. Approximately, 24% of its total revenue comes from its foreign customers. The sales from top 5 clients of the company comprise of ~30% of the total sales generated by the company indicating a diversified client base.

The company’s sales risk is diversified into various sectors, contrary to what was previously followed. The segment-wise sales are as follows:

Segment	Percentage (%)
Pharmaceuticals	30%
Agro Products	25%
Textile	25%
Speciality Chemicals	20%

This has helped the company to diversify the risk that pertains to any single sector.

Improved Profitability along with comfortable debt protection parameters

The EBITDA margins have improved consistently over the years from 5.61% in FY17 to 8.80% in FY20 (Provisional) owing to changes in business strategies and catering to a broader segment of customers. Subsequently, the PAT margin has increased over the years from ~2.01% in FY17 to 6.62% in FY20. The interest coverage ratio as on March 31, 2020, was 32.44x as compared to 5.75x as on March 31, 2017. The total debt to EBITDA has been 0.99x as on account closing day of FY20. The overall gearing ratio on Net Adjusted TNW of the company has been 0.34x as on March 31, 2020.

Key Rating Weaknesses

Profit susceptible due to fluctuation in raw-material cost and foreign currency risk

The company has a well-established network of suppliers. However, it is susceptible to changes in prices of the raw materials as any fluctuations in procurement cost could lead to a substantial change in its bottom-line owing to the fact that raw materials cost alone contributes around 67% of company's total cost of production. To add to it, the raw materials are mainly derived from Benzene which is a natural constituent of crude oil. There is a positive correlation with crude oil prices and any increase in the price of oil leads to an increase in the price of raw materials. On an average the company earns ~23% of its total revenue from exports which leaves it open to foreign exchange fluctuations. However, the company has 60% of its foreign exchange hedged. The remaining unhedged portion does not have a major impact on the net profit of the company.

Working capital intensive nature of operations

The average collection period was elongated at approximately 115 days and average inventory of 57 days in FY20. This implies working capital-intensive operations where much of the company cash is locked up in inventory and with the customers. On average, the company takes around 76 days to pay its suppliers. The operating cycle for the company is around 96 days for FY20.

Highly competitive industry

Owing to the competitive nature of the industry, the company faces stiff competition from other numerous registered players based out of the same geographical region. As a direct consequence of this intensely competitive environment, the company has very low pricing power.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Entities

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The company has no Term loan facility and generates enough GCA to cover for its working capital debt obligations. The company has enough free cash flow and the Current and Quick Ratio of the company for FY2020 (Provisional) are comfortable at 1.42x and 1.15x respectively. The overall liquidity position of the company is **Adequate.**

About the Company

Incorporated in 1992, Supreet Chemicals Private Limited is into manufacturing of dye intermediates and inorganic chemicals used in sectors pertaining to textile, agriculture, speciality chemicals, and pharmaceuticals. Based out of Vapi, Gujarat, and operating since decades, the company has gained a reputation that has helped gain a well-established brand name and reputed client base which can be seen in its steady profitability growth and sustained improvement in debt protection parameters. The company has been able to achieve this mainly due to a few strategical changes like diversifying revenue exposure amongst 3 to 4 sectors as opposed to one, which was earlier, and strengthening its marketing operations to bid for better priced orders.

Financials (Standalone): **(INR Crore)**

For the year ended* / As on	31-03-2019	31-03-2020
	(Audited)	(Provisional)
Total Operating Income	230.09	215.29
EBITDA	16.03	18.94
PAT	10.56	14.34
Total Debt	28.48	18.75
Tangible Net worth	50.28	68.40
EBIDTA Margin (%)	6.97	8.80
PAT Margin (%)	4.56	6.62
Overall Gearing Ratio (x)	0.74	0.34

* Classification as per Infomerics' standards

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

Any other information: N.A.

Rating History for last three years:

		Current Rating (Year 2020-21)	Rating History for the past 3 years

Sl. No.	Name of Instrument/ Facilities	Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (20.06.19)	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facility - Cash Credit	Long Term	4.00	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)	--	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	--
2.	Short Term Fund Based Facility – EPC/PCFC	Short Term	10.00	IVR A3 (IVR Single A Three)		IVR A4+ (IVR Single A Four Plus)	
3.	Short Term Non-Fund Based Facility – LC/BG	Short Term	11.00	IVR A3 (IVR Single A Three)	--	IVR A4+ (IVR Single A Four Plus)	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility - Cash Credit	--	1 Yr. MCLR (8.20%) +BSS (0.30) + CRP (2.20). Effective 10.70% w.e.f. 26/12/2019	On Demand	4.00	IVR BBB-/ Stable outlook (IVR Triple B Minus with stable outlook)
Short Term Fund Based Facility – EPC/PCFC	-	-	-	10.00	IVR A3 (IVR Single A Three)
Short Term Non-Fund Based Facility – LC/BG	--	--	-	11.00	IVR A3 (IVR Single A Three)