Chemi Enterprises LLP

February 23, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities (including proposed facility of Rs. 2.00 crore)	10.62	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities (including proposed limit of Rs. 4.00 crore)	19.00	IVR A3 (IVR A three)	Assigned	Simple
Long Term /Short Term Bank Facilities	7.00	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook / IVR A three)	Assigned	Simple
Total	**36.62 (Thirty six crore and sixty two lacs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Chemi Enterprises LLP (CEL) derives strength from its experienced Promoters with established track record, diversified customer base and product portfolio. The ratings also favourably factors improvement in financial risk profile, capital structure and debt protection metrics in FY21 and Provisional 9MFY22. However, these rating strengths are constrained by relatively modest scale of operations, thin profitability margins, susceptibility of profitability to fluctuation in foreign exchange rate, and intense competition in the industry.

Key Rating Sensitivities:

Upward Factors

- Growth in revenue and profitability as envisaged sustained basis
- Further improvement in capital structure and debt protection metrics

- Efficient working capital management thereby improving overall liquidity

Downward Factors

- Moderation in total operating income and/or moderation in profitability with EBITDA margin reduced below 6% leading to deterioration in gross cash accruals
- Moderation in the capital structure with overall gearing ratio over 1.5x and/or moderation in debt protection metrics with interest coverage ratio below 2x
- Stretched in working capital cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters with established track record**

Promoters of the firm Mr. Bipin Kantilal Joshi and Chhaya Bipin Joshi have about four decades of experience in the chemical trading which helped them to establish strong relationship with diverse customer base leading to repeat orders. Also, strong relationship with supplier's has ensured sustainable supply of products without any disruptions.

- **Diversified customer base**

CEL has a strong customer base of ~400 resulting minimal customer concentration risk. The firm is supplier for major players in the paint industry. CEL has a diversified product portfolio of more than 200 chemicals which are supplied pan India.

- **Stable financial performance with improvement in profitability**

The total operating income (TOI) of the firm remained almost Stable over the past three fiscals in the range of Rs.100 crore. However, the EBITDA margins improved from ~4.5% in FY20 to 8.22% in FY21 backed by cost optimization measures adopted by the firm to reduce in operating expenses and rise in average sales realisations attributable to improved demand of chemical products. Simultaneously, the PAT margin has also improved in FY21. During Prov. 9MFY22, the firm witnessed steady improvement in its operating income backed by high demand of chemical products and has achieved a revenue of Rs.95.80 crore with a PBT of Rs.6.18 crore.

- **Comfortable capital structure with adequate debt protection metrics**

The capital structure of the firm remained comfortable over the past three years with partners' capital at Rs. 22.28 crore in FY21. The debt profile of the firm mainly comprises working capital limits. The debt equity ratio and overall gearing ratio stood at 0.22x and 0.93x respectively as on March 31,2021 (debt to equity ratio 0.30x and overall gearing 0.94x as on March 31,2020). Further, total indebtedness of the firm marked by TOL/TNW witnessed significant improvement from 3.40x as on March 31,2019 to 1.51x as on March 31,2021 (1.67x as on March 31,2020). The debt protection metrics of the firm marked by interest coverage ratio remained satisfactory over the past three fiscals and witnessed gradual improvement. The interest coverage ratio (including LC/BG commission and Bank charges) improved gradually from 1.32x in FY19 to 2.20x in FY21 backed by steady improvement in EBITDA during the period. Total debt to EBITDA and total debt to GCA remined moderate at 2.52x and 6.01x respectively in FY21

Key Rating Weaknesses

- **Vulnerability to foreign exchange price fluctuation risk**

The firm imports ~70% of its products from China exposing it to foreign exchange rate risk. CEL does not have any hedging mechanism against the risk of fluctuation in foreign exchange rates.

- **Intense competition**

Chemical trading industry is highly unorganised with many small and medium size players in the industry exposing the firm to intense competition with minimum price flexibility.

- **Risks arising from partnership nature of business**

Given CEL's constitution as a partnership firm, it is exposed to the inherent risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency.

- **High working capital intensive business**

The firm's working capital intensity increased to 0.33 times in FY21 from 0.26 times in FY20. This was due to increase in inventory days to 40 days in FY21 compared to 34 days in FY20 and decline in creditor days to 45 days in FY21 from 50 days in FY20. Further gross current asset days increased to 168 days in FY21 from 147 days in FY20 because of high average collection period of 104 days

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies]

[Financial Ratios & Interpretation (Non- Financial Sector)]

Liquidity – Adequate

The firm's liquidity is expected to remain adequate in the near to medium term vis-à-vis its debt repayment obligations. CEL is expected to earn cash accruals in the range of ~Rs.5.50 - 12 crore vis-à-vis its nil debt repayment obligation during FY22-24. The firm has earned cash accrual of Rs.3.43 crore in FY21 and the CC utilisation stood at Rs. 15.33 crore. Further, the average utilisation of its fund-based limit remains at ~81% while the non-fund based limit are also utilised ~80% on an average monthly basis in the past 12 months period January 21 to December 2021. However, due to strong pent up demand in 3rd quarter of FY22 the utilisation of fund based limits increased to 100% in the month of December 2021 which resulted in firm availing ad-hoc fund based limit of Rs. 5 crore, thereby indicating stretched liquidity in short term period.

About the Firm

The company was formed as a proprietorship firm named Chemi Enterprises in Mumbai in 1983 by Mr. Bipin Kantilal Joshi. In 2015, Chemi Enterprises LLP (CEL) was formed to take-over the existing operations of the aforesaid firm and started its operations in 2016.

CEL is engaged in trading of wide range of industrial inorganic chemicals such as titanium dioxide, barium sulphate, barite, flowing agents, and hardener which are procured from companies across the world. The firm caters to various industries such as paints, plastics, rubber, pharmaceutical, ink, adhesive, construction among others.

Financials (Standalone):

For the year ended* / As on	31.03.2020	31.03.2021
	Audited	Audited
Total Income	98.03	99.35
EBIDTA	4.48	8.16
PAT	1.16	3.19
Total Debt	17.62	20.61
Tangible Net Worth	18.73	22.28
EBDITA Margin (%)	4.57	8.22
PAT Margin(%)	1.18	3.19
Overall Gearing Ratio (x)	0.94	0.93

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

Rating History for last three years:

Sr. No.	**Name of Instrument/Facilities**	**Current Ratings (Year 2021-22)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2020-21**	**Date(s) & Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**
1.	Long Term (including proposed facility of Rs. 2.00 crore)	CC	10.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	-	-
2.	Long Term	GECL	0.62	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	-	-
3.	Short Term (including proposed facility of Rs. 4.00 crore)	LC	19.00	IVR A3 (IVR A three)	-	-	-
4.	Long Term/Short Term	CC/LC	7.00	IVR BBB-/Stable/IVR A3	-	-	-

Press Release

Name and Contact Details of the Rating Analyst:

Name: Ms. Preety Jalan Tel: (033) 46022266 Email: preety.jalan@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apoddar@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	10.00 (including proposed facility of Rs. 2.00 crore	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
CELC	-	-	June 2022	0.62	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
Letter of Credit	-	-	-	19.00 (including proposed facility of Rs. 4.00 crore	IVR A3 (IVR A three)
CC/LC	-	-	-	7.00	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook / IVR A three)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details
Chemi-Enterprises-lenders-feb22.pdf (infomerics.com)

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.