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Heetu Chemicals and Alkalies Limited

June 16, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	9.50	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short Term Facilities	11.00	IVR A3 (IVR A Three)	Assigned	Simple
Total	20.50 (Rupees Twenty crore and Fifty lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Heetu Chemicals and Alkalies Limited (HCAL) factors in the experienced promoters and established track record of operations, substantial improvement in revenue in FY22 (Provisional) and moderate financial risk profile. The ratings are, however, constrained mainly on account of low profitability margins, working capital-intensive operations and high competition.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in total operating income of more than 15%.
- Sustained improvement in profit margins.
- Improvement in the capital structure with improvement in TOL/TNW to below 2x.
- Maintaining low operating cycle.

Downward Factors

- Any decline in total operating income and/or profitability leading to deterioration in overall financial risk profile of the company.
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and established track record of operations

The company has an established track record of more than two decades of operations in chemical industry. The key promoter, Mr. Vivek Shah has been associated with this industry for almost three decades. HCAL benefits from its experienced management and long track record to maintain long standing relations with reputed customers such as Oil and Gas Corporation of India, Rallis India Limited, West Coast Paper Mills Private Limited, Municipal Corporation of Greater Mumbai among others and suppliers such as Gujarat Chemicals and Alkalies Limited and Dow Chemicals Company among others.

Substantial improvement in revenue in FY22 (Provisional)

The company has achieved revenue of Rs.300.62 crore in FY22 (provisional) over Rs.165.21 crore, an increase by around 82%, due to an increase in chemical prices (mainly Chloroalkalies) coupled with structuring of existing client contracts, diversification of supplier base, entry and deeper penetration into new segments, weekly tracking and market research & analysis.

Moderate financial risk profile

Financial risk profile of HCAL is moderate marked by moderate capital structure and debt protection metrics. The overall gearing ratio (based on networth including quasi equity) stood at 1.44x as on March 31, 2022 (Provisional) against 1.40x as on March 31, 2021. TOL/TNW (based on networth including quasi equity) stood at 2.45x as on March 31, 2022 (Provisional) against 2.64x as on March 31, 2021.

The interest coverage ratio and total debt to GCA ratio moderated from 5.67x and 3.48x respectively in FY20 to 4.59x and 14.23x respectively in FY21 and further it stood at 3.27x and 12.48x respectively in FY22 (Provisional).

Key Rating Weaknesses

Low profitability margins

The company's profitability remained low over the past three fiscals ending FY22 due to trading nature of its business. The operating margin remained thin, and range bound between 1.45%-1.89% during FY19-FY21. Further, the PAT margin also remained thin at 0.71%-0.83% during FY19-21. However, operating margin has improved to 2.09% along with PAT margin at



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1.10% in FY22 (Provisional) mainly due to increase in the sale of higher margin specialty chemicals.

Working capital intensive operations

HCAL's working capital operations are intensive marked by operating cycle of 50 days in FY22. HCAL's collection period was 70 days in FY22 against 93 days in FY21. The company generally gives a credit period of 30-60 days to its customers. Inventory days stood at 7 days in FY22 against 9 days in FY21. The inventory holding policy followed by the company is maximum 60 days. The creditors days stood at 27 days in FY22 against 52 days in FY21. The company enjoys a credit period of 60-90 days from its suppliers.

High competition

The company operates in a highly competitive industry with the presence of a large number of organized as well as unorganized players in India.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Trading Companies](#)

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

Liquidity – Adequate

HCAL has an adequate liquidity position given the expected cash accruals in the range of Rs.4.40 crore to Rs.6.83 crore in the period of FY23-25 as against the repayments of Rs.0.08 crore to Rs.0.94 crore during the period. The cash and bank balances stood at Rs.4.81 crore (free cash and cash equivalents) as on March 31, 2022 with a current ratio of 1.54 times as on March 31, 2022. The working capital limits remained utilized at around 75% for last trailing 12 months ended March 2022.

About the Company

HCAL was incorporated in 1990 as a public limited company. The company is engaged in trading and distribution of wide range industrial chemicals, oilfield chemicals and specialty chemicals. It also undertakes blending and repackaging of chemicals. The end user industries for its products comprise of adhesives, agrochemicals, automotive, cables, coatings, dyes, anti-rodents, electronics, food & beverages, healthcare, biosciences, inks, oil & gas, paints, pharmaceuticals and water treatment amongst others.



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HCAL's headquarter is in Mumbai and it has branch offices in Bengaluru (Karnataka) and Vadodara (Gujarat). It also has a warehouse in Bhiwandi and a laboratory in Vadodara for preparing customized formulations (blending segment) for its customers. HCAL is looking to set up a warehouse in Bengaluru which will further enable it to deepen its presence in South India.

HCAL is as part of Heetu Group of companies which also includes entities like D I Kannia, Heena Marketing Limited, Noble House Securities & Holdings Ltd, Zen Marketing Ltd. and K-Pack Systems Pvt. Ltd.

Financials (Standalone):

For the year ended/As on*	31-03-2020	31-03-2021	31-03-2022
	Audited	Audited	Provisional
Total Operating Income	165.46	165.21	300.62
EBITDA	2.64	3.13	6.27
PAT	1.57	1.37	3.30
Total Debt	7.18	21.92	36.73
Tangible Net Worth (including Quasi Equity)	15.88	15.61	18.53
Ratios			
EBITDA Margin (%)	1.60	1.89	2.09
PAT Margin (%)	0.95	0.83	1.10
Overall Gearing Ratio including Quasi Equity (x)	0.45	1.40	1.44

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	9.00	IVR BBB-/ Stable	-	-	-
2.	OD against FD	Long Term	0.50	IVR BBB-/ Stable	-	-	-
3.	Letter of Credit	Short Term	11.00	IVR A3			

Name and Contact Details of the Rating Analyst:



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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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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	-	-	-	9.00*	IVR BBB-/ Stable
OD against FD	-	-	-	0.50	IVR BBB-/ Stable
Letter of Credit	-	-	-	11.00^	IVR A3



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*Includes sub-limit of post shipping facility of Rs.2.00 crore and Working Capital Demand Loan of Rs.9.00 crore.

^Includes sub-limit of Bank Guarantee of Rs.11.00 crore and SBLC/BG for buyers credit of Rs.11.00 crore and Bank Guarantee for buyers credit- Gift City.

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Heetu-Chemicals-june22.pdf>

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.