



Press Release

Melzer Chemicals Private Limited

July 21, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicators
Long Term Bank Facilities	42.04 (increased from Rs.32.97 crore)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	15.00 (increased from Rs.9.00 crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	57.04 (Rupees Fifty Seven crore and Four lakh only)			

Details of facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Melzer Chemicals Private Limited (MCPL) continue to derive strength from its improved financial risk profile, capital structure and coverage indicators, experienced promoters and management along with diverse sources of revenue. The ratings, however, continue to remain constrained by its working capital intensive nature of operations, fragmented industry and exposure to stringent regulatory norms.

Key Rating Sensitivities

Upward Rating Factor

- Sustained improvement in scale of operations and cash accruals along with operating cycle and debt protection metrics

Downward Rating Factor

- Stretched liquidity and working capital management
- Stretched debt protection metrics

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Improved financial risk profile, capital structure and coverage indicators



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The company has seen their top line grow from Rs.69.13 crore in FY18 to Rs.126.94 crore in FY21 with a CAGR of ~22% led by expansion of product portfolio for catering diverse industry needs and increase in average selling price. Consequently, EBITDA in absolute terms grew from Rs.5.16 crore in FY18 to Rs.17.16 crore in FY21 and PAT soared to Rs.8.88 crore in FY21 to Rs.2.15 crore in FY18. EBITDA margin stood at 13.72% and PAT margin stood at 6.99% in FY21. The company's financial risk profile remained comfortable with an overall gearing ratio of 0.75x as on March 31, 2021 as against 0.66x as on March 31, 2020 and interest coverage ratio which remained strong at 8.28x in FY21 against 4.71x in FY20.

MCPL's TOI further increased by 14.99% to Rs.144.29 crore in FY22 (Provisional) led by increase in demand. EBITDA further increased to Rs.19.11 crore in FY22 (Provisional) with the increasing scale of operation. EBITDA margin remained muted at 13.24% in FY22 (Provisional) against 13.72% in FY21. PAT margin stood at 7.04% in FY22 (Provisional) against 6.99% in FY21 due to marginal increase in non-operational income.

Total debt further increased to Rs.38.71 crore on March 31, 2022 (Provisional) led by debt funded capex undertaken by the company coupled with higher utilization of working capital borrowings as on balance sheet date. The capex was completed in March 2022 with no time overrun and cost overrun.

Experienced Board of Directors

Melzer Chemical Private Limited was incorporated on 19th September, 1994. The company is promoted by Mr. Sunil Balkrishna Shinde and Mr. Chandrasen Ghatge, they possess a wealth of experience in the field of chemical production and are looking after the day to day operations of the company.

Diverse sources of revenues

MCPL has a diversified product portfolio catering to a variety of industries -sugar production, paper production, paints and coatings, adhesives, metal works dairy & poultry and oil and gas industry. This enables the company to reap the benefits of a diverse portfolio and considerably insulates itself from any sector specific volatility.

Key Rating Weaknesses

Working capital intensive nature of operations



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The average collection period stood at 70 days in FY21 and 84 days in FY20, while inventory turnover days stood at 57 days in FY21 against 53 days in FY20 implying working capital intensive operations wherein company's operating cashflow is locked up in inventory and with the customers. On an average, the company takes around 55 days to pay its suppliers. The operating cycle improved from 96 days in FY19 and 81 days in FY20 to 72 days in FY21, the operating cycle still remains elongated despite the improvement. The operating cycle of the company increased to 94 days in FY22 (Provisional) led by increase in inventory as on March 31, 2022 (Provisional). The average inventory period increased to 88 days in FY22 from 57 days in FY21.

Fragmented Industry

MCPL operates in a very fragmented industry wherein there are a variety of small and medium-sized companies that specialise in biocide manufacturing and speciality chemicals. With 100% FDI, there are a variety of foreign investors who have been keenly looking into the industry; chemical giants such as BASF – SE, Mitsubishi chemical, DuPont and others have been very interested in investing in the Indian market given the low production costs.

Exposure to stringent regulatory norms

MCPL operates in an industry that poses high risks to environment and health. Consequently, the industry is regulated by stringent norms by regulatory bodies. The company continues to comply with such norms; however, any changes in the policies may adversely constrain the business.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for manufacturing companies](#)

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



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Liquidity – Adequate

The liquidity is adequate, signified by current ratio of above 1.41x as on March 31, 2020 and March 31, 2021. On the back of increasing profitability over the past 3 fiscals the GCA has increased to Rs.11.78 crore in FY21 from Rs.8.51 crore in FY20 and Rs.3.40 crore in FY19. Cash and bank balance stood at Rs.7.15 crore as on March 31, 2021 which is adequate to cover their short term obligations in the form of interest payments and CPLTD amounting to Rs.4.05 crore leaving the company with adequate funds in-case of any contingent event. Average utilization of working capital bank facility being packing credit stood at 83% as of FY21. The current ratio of the company increased slightly to 1.45x as on March 31, 2022.

About the Company:

MCPL, established in the year 1999, manufactures biocide chemicals meant for industrial and household usage. Apart from these, MCPL also manufactures few specialized products for usage in Oil and Gas sector and pharmaceutical sector. The company is promoted and managed by Mr. Sunil Balkrishna Shinde and Mr. Chandrasen Ghatge. They possess over 30 years of experience in the chemical industry. MCPL has its base of operations in Pune and also have facilities in other parts of the country. MCPL has its customers in both domestic and international markets including countries in the Middle East, Europe, South East Asia, Africa and Americas.

Financials (Standalone):

(Rs. crore)

For the year ended/As on*	31-03-2020	31-03-2021	31-03-2022
	Audited	Audited	Provisional
Total Operating Income	94.22	125.05	144.29
EBITDA	11.92	17.16	19.11
PAT	5.44	8.88	10.28
Total debt	16.90	25.91	38.71
Tangible Net worth	25.60	34.48	44.83
Ratios			
EBITDA Margin (%)	12.66	13.72	13.24
PAT Margin (%)	5.66	6.99	7.04
Overall Gearing Ratio (x)	0.66	0.75	0.86

*Classification as per Infomerics' Standards

Status of non-cooperation with previous CRA: India Ratings and Research vide press release dated July 9, 2021 continues to classify the rating of MCPL's bank facilities in 'Issuer Not Cooperating' category on account of non-submission of relevant information.



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Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) and Rating (s) assigned in 2021-22 (PR dated January 28, 2022)	Date(s) and Rating (s) assigned in 2020-21	Date(s) and Rating(s) assigned in 2019-20 (PR dated September 13, 2019)
1.	Term Loan	Long Term	18.04	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Positive (PR dated November 12, 2020) IVR BBB-/ Positive (PR dated November 24, 2020)	IVR BBB-/ Stable
2.	Proposed Long Term Bank Facility – Fund Based – Term Loan	Long Term	-	-	-	IVR BBB-/ Positive (PR dated November 24, 2020)	-
3.	Cash Credit	Long Term	24.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Positive (PR dated November 12, 2020) IVR BBB-/ Positive (PR dated November 24, 2020)	IVR BBB-/ Stable



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4.	Proposed Long Term Facility – Fund Based – Cash Credit	Long Term	-	-	--	IVR BBB-/ Positive (PR dated November 24, 2020)	--
5.	Letter of Credit	Short Term	15.00	IVR A3+	IVR A3+	IVR A3 (PR dated November 12, 2020) IVR A3 (PR dated November 24, 2020)	IVR A3
6	Proposed Short Term Facility – Non Fund Based – Letter of Credit	Short Term	-	-	-	IVR A3 (PR dated November 24, 2020)	-

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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).



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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 Instruments/ Facilities

Name of Instruments/ Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	July 2029	18.04	IVR BBB/ Stable
Cash Credit	-	-	-	24.00	IVR BBB/ Stable
Letter of Credit	-	-	-	15.00	IVR A3+

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-melzer-july22.pdf>

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



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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.

