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Shubham Chemicals and Solvents Limited

January 11 , 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	13.00s	IVR BBB; Stable Outlook (IVR Triple B with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	167.50	IVR A3+; (IVR A Three Plus)	Assigned	Simple
Total	180.50 (Rupees One hundred Eighty Crore and fifty lakh Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Shubham Chemicals and Solvents Limited draws comfort from experienced promoters, diversified customer base and product portfolio for multiple industries, growing scale of operations and moderate debt coverage indicators. However, these strengths are partially offset by low profitability margins on account of trading nature of operations, leverage capital structure, intense competition and fragmented industry, exposed to Foreign Exchange (FE) fluctuation risk and susceptibility to fluctuation in traded goods prices.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business leading to improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity
- Improvement in the capital structure with further improvement in debt protection metrics

Downward Factors



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- Dip in operating income and/or profitability further impacting the debt coverage indicators and/or further deterioration in the financial risk profile.
- Any further significant rise in working capital intensity leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters:-**SCSL has been founded and is being managed by Mr. Ajay Kapur who is the Managing Director with an extensive experience of nearly 33 years in the chemical industry. He is ably supported by other board of directors who have an experience of around 10-20 years in the same industry. Further, the top management is supported by key managerial personnel comprising young, qualified and experienced professionals. Further, the promoters have been able to establish relationship with different suppliers and customers over the period. Thus, strong track record of business operations and rich experience of the management helps in driving the future growth of business. Further the promoters have supported the business operations of SCSL in times of need by infusing funds.
- **Diversified customer base and product portfolio for multiple industries:-** SCSL trades in a wide range of chemicals, which includes petrochemical solvents, intermediates, pharmaceuticals and special chemicals such as Phenol, Acetic Acid, Methanol, Di-Ethylene Glycol etc. Products are purchased from various chemical dealers in India and abroad. The Company majorly generates revenues from the domestic market. The Company's customers include automotive and industrial lubricant manufacturers, paints and other specialty products manufacturers. The Company's customer base is well diversified with the top 5 customers accounting for less than 15% of the total sales. Though Phenol and Methanol sales together contributed around 81% of its total operating income in FY22, the customer wise, product wise & sector wise diversification helps company de-risking itself from any product, customer concentration risk & cyclicity in any specific sector.
- **Growing Scale of operations albeit low profitability margins on account of trading nature of operations:-**Total operating income (TOI) has increased by ~107.79% to Rs.955.11



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crore in FY2022 (Audited) from Rs.458.97 crore in FY2021 due to increase in sales volume and sales realisation of its key products. EBITDA margin declined by 13 bps from 2.33% in FY21 to 2.20% in FY22 due to lower trading margin. PAT margin was more or less same at 1.18% in FY22 as compared to the same in FY21. Gross Cash accruals have increased from Rs.5.61 crore in FY21 to Rs.11.78 crore in FY22 with an increase in scale of operations and operating profitability. Further, the Company has reported PAT of Rs.7.01 crore on total operating income of Rs. 560.39 crore in H1FY23 as against PAT of Rs.5.13 crore on total operating income of Rs.465.81 crore in H1FY22.

- **Moderate debt coverage indicators albeit leverage capital structure** :-The overall gearing (considering LC backed creditors and quasi equity) has improved to 2.78x as on 31 March 2022 as against 2.86x as on 31 March 2021 due to accretion of profit to reserves. Further, total indebtedness of the company as reflected by TOL/TNW (including quasi equity) improved to 3.67x as on March 31, 2022 as compared to 4.79x as on March 31, 2021. Unsecured loans from directors to the tune of Rs. 10.00 crore as on March 31, 2022 have been considered as quasi equity as the same are subordinate to bank debt. DSCR of the company has declined to 5.69x in FY22 as against 7.52x in FY21. Total debt to GCA has improved to 12.33x as on 31 March 2022 as against 15.74x as on 31 March 2021. Interest coverage has improved to 2.94 times to FY22 from 2.26 times in FY21.

Key Rating Weaknesses

Intense competition and fragmented industry:-SCSL is a trading company dealing in industrial chemicals. The spectrum of the chemical trading industry in which the group operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Strong hold on key customers and effective supply side are key factors for survival of an entity. SCSL with its strong networking has been able to remain as a strong player in this competitive environment.

Exposed Foreign Exchange (FE) fluctuation risk:-SCSL imports 40% of the chemicals traded and sells almost 100% to domestic players, thereby exposing it to foreign exchange risks. SCSL uses forward contracts and follows a hedging strategy to hedge about 50% of their total FE payments.



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Susceptibility to fluctuation in traded goods prices:-The Company trades in products which are exposed to price risk related to crude oil prices. The margins are also susceptible to price risks from fluctuations in chemical prices and inventory maintained by the company.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Trading Companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The company's liquidity is expected to remain adequate as it expects sufficient cushion in its cash accruals vis-à-vis debt repayment obligations. The average utilization of fund based working capital limits of the company stood moderate at ~57.89 during last 12 months ending 30th November 2022. The current ratio remained at 1.21x as on March 31, 2022 (Audited) as compared to 1.32x as on March 31, 2021. The unencumbered cash and bank balance stood at Rs. 16.80 crore as on March 31, 2022. The operating cycle of the entity is 52 days in FY22 improved from 65 days in FY21 due to decline in collection period with an increase in scale of operation. Quick ratio of the company stood at 1.14x as on March 31, 2022 as against 1.22x as on March 31, 2021.

About the Company

Shubham Chemicals and Solvents limited (SCSL) was established in 1989 as sole proprietorship firm and was converted into Public Limited company in 2001. SCSL is one of the leading industrial chemicals import and distribution company in India. SCSL has assumed a superior position of a trading company as it operates pan India with its robust network across Gujarat, Maharashtra and Haryana. Company procures industrial chemicals from international and domestic markets and cater to industries including plywood and laminates, paints and coatings, rubber processing, plastics and packaging etc.



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Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	458.97	955.11
EBITDA	10.67	21.01
PAT	5.45	11.32
Total Debt (including LC backed creditors)	88.35	145.33
Tangible Net worth (including quasi-equity)	30.94	52.23
EBITDA Margin (%)	2.33	2.20
PAT Margin (%)	1.18	1.18
Overall Gearing Ratio (x)	2.86	2.78

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (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.	Fund Based- Cash Credit	Long Term	13.00	IVR BBB/ Stable	-	-	-
2.	Non-Fund Based- Letter of credit	Short Term	167.50	IVR A3+			

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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



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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	-	-	-	13.00	IVR BBB/ Stable
Letter of Credit	-	-	-	167.50	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-Shubham-Chemicals-jan23.pdf>



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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 [Complexity Level of Rated Instruments/Facilities](#).