



Press Release

Melzer Chemicals Pvt Ltd

November 24th, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Term Loan	4.86	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Re-affirmed
2.	(Proposed) Long Term Bank Facility – Fund Based – Term Loan	11.45	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
3.	Long Term Facility –Fund Based – Cash Credit	13.75	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Re-affirmed
4.	(Proposed) Long Term Facility –Fund Based – Cash Credit	4.25	IVR BBB-/Positive Outlook (IVR Triple B Minus with Positive Outlook)	Assigned
5.	Short Term Facility – Non Fund Based – Bank Guarantee	5.06	IVR A3 (IVR A Three)	Re-affirmed
6.	(Proposed) Short Term Facility – Non Fund Based – Letter of Credit	3.94	IVR A3 (IVR A Three)	Assigned
	Total	43.31		

Details of Facilities are in Annexure 1

Detailed Rationale

Melzer Chemicals rating outlook has been revised to positive from stable on account of the company's established presence in the chemical manufacturing and trading industry along with a diversified customer and supplier base, improvement in operations and continuous research and development which will aid the company's revenues.

The aforesaid rating affirmation to the bank facilities of the entity derives comfort from the company's improved financial risk profile, capital structure and coverage indicators, experienced promoters and management along with diverse sources of revenue. However,



Press Release

working capital intensive nature of operations, although improving; fragmented industry and exposure to stringent regulatory norms are the rating constraints.

Key Rating Sensitivities

Upward factors:

- Sustained improvement in scale of operations and cash accruals.

Downward factors:

- Decline in profitability and deterioration in liquidity.

Key Rating Drivers with detailed description

Improved financial risk profile, capital structure and coverage indicators

The company has maintained their profitability margins at healthy levels over the past three fiscals with their top line growing from INR68.06 crore in FY18 to INR94.22 crore in FY20. Their EBITDA in absolute terms has increased from INR5.16 crore in FY18 to INR11.92 crore in FY20. The company's long term borrowing have declined indicated by a healthy gearing ratio of 0.66x in FY20. The company also has adequate liquidity and healthy cash accruals which has increased from INR3.40 crore in FY19 to INR8.51 crore in FY20 owing to improving profits which has also led to an improvement in the interest coverage ratio from 2.81x in FY19 to 4.71x in FY20.

Experienced Promoters and Management

Melzer Chemical Private Limited is a company incorporated on 19th September, 1994. The company is promoted and managed 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 revenue

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.



Press Release

Key Rating Weaknesses

Working capital intensive nature of operations, although improving

The average collection period although elongated has improved from 92 days in FY19 to 84 days in FY20, with the inventory turnover days also improving marginally from 60 days in FY19 to 53 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 an average, the company takes around 57 days to pay its suppliers. The operating cycle improved from 96 days in FY19 to 81 days in FY20, the operating cycle still remains elongated despite the improvement.

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 have undesirable effects. The company has been complying to the pollution control norms laid down, we have ascertained the same with the company's latest pollution control certificate issued by the Maharashtra Pollution Control Board.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)



Press Release

Liquidity - Adequate

The liquidity is adequate, signified by an above unity current ratio of 1.41x in FY20. On the back of increasing profitability over the past three fiscals the GCA has increased to INR8.51 crore along with a cash and bank balance of INR4.97 crore which is adequate to cover their short term obligations in the form of interest payments and CPLTD amounting to INR4.34 crore leaving the company with adequate funds in-case of any contingent event.

About the company

Melzer Chemicals Pvt Ltd (MCPL) was established in the year 1999; they specialise in Biocide chemicals meant for industrial and household usage. 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. They have their base of operations in Pune and also have facilities in other parts of the country. They have their customers in both domestic and international markets including countries in the Middle East, Europe, South East Asia, Africa and Americas. MCPL manufacture a range of biocides and preservatives meant for application in industrial and household products. Apart from these, Melzer also has a few specialized products for usage in Oil and Gas sector and pharmacy companies.

Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Operating Income	68.06	81.94	94.22
EBITDA	5.16	5.98	11.92
PAT	2.15	2.44	5.44
Total Debt	19.72	22.98	16.90
Tangible Net-worth	17.80	20.24	25.60
Ratios			
EBITDA Margin (%)	7.58	7.30	12.66
PAT Margin (%)	3.09	2.93	5.66
Overall Gearing Ratio (x)	1.08	1.11	0.66

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: India Ratings and Research in their press Release dated on March 05, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information



Press Release

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating		Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	4.86 (reduced from 8.42 crore)	IVR BBB-/ Positive Outlook	IVR BBB-/ Positive Outlook (PR dated November 12, 2020)	IVR BBB-/ Stable Outlook (PR dated September 13, 2019)	--	--
2.	(Proposed) Long Term Bank Facility – Fund Based – Term Loan	Long Term	11.45	IVR BBB-/ Positive Outlook	--	--	--	--
3.	Long Term Facility – Fund Based – Cash Credit	Long Term	13.75	IVR BBB-/ Positive Outlook	IVR BBB-/ Positive Outlook (PR dated November 12, 2020)	IVR BBB-/ Stable Outlook (PR dated September 13, 2019)	--	--
4.	(Proposed) Long Term Facility – Fund Based – Cash Credit	Long Term	4.25	IVR BBB-/ Positive Outlook	--	--	--	--
5.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	5.06	IVR A3	IVR A3 (PR dated November 12, 2020)	IVR A3 (PR dated September 13, 2019)	--	--
6.	(Proposed) Short Term Facility – Non Fund Based – Letter of Credit	Short Term	3.94	IVR A3	--	--	--	--

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:

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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Press Release

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2024	4.86 (reduced from 8.42 crore)	IVR BBB-/ Positive Outlook
(Proposed) Long Term Bank Facility – Fund Based – Term Loan	NA	NA	NA	11.45	IVR BBB-/ Positive Outlook
Long Term Facility – Fund Based – Cash Credit	NA	NA	Revolving	13.75	IVR BBB-/ Positive Outlook
(Proposed) Long Term Facility – Fund Based – Cash Credit	NA	NA	Revolving	4.25	IVR BBB-/ Positive Outlook
Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	Less than 1 year	5.06	IVR A3
(Proposed) Short Term Facility – Non Fund Based – Letter of Credit	NA	NA	NA	3.94	IVR A3

Annexure 2- Lender's Details

<https://www.infomerics.com/admin/prfiles/Lender-Melzer-24-nov-20-.pdf>