

Press Release

Melzer Chemicals Private Limited

September 13, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Debt – Fund Based – Term Loan	8.42	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Long Term Facility – Fund Based - Cash Credit	13.75	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)
3.	Short Term Facility – Non Fund Based - Bank Guarantee	5.00	IVR A3 (IVR A Three)
4.	(Proposed) Short Term Facility – Non Fund Based – Bank Guarantee	0.06	IVR A3 (IVR A Three)
	Total	27.23	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced board of directors, diverse sources of revenues, healthy supplier network, healthy relationships with reputed clients and a diversified client base, moderate scale of operations and moderate debt protection metrics. However, the rating is constrained by stretched liquidity, working capital intensive nature of operations, fragmented industry and exposure to stringent regulatory norms. Growth in scale of operations, maintaining profitability and sharp changes in leverage are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors

Melzer Chemical Private Limited is a company incorporated on 19th September, 1994. The company is promoted by Mr. Sunil Balkrishna Shinde and Mr. Chandrasen Ghate, 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.

Healthy Supplier network

The company has a good supplier network. Its top five suppliers constitute around 28% of its total raw material purchases which indicates a moderately diversified supply network. Further, majority of its suppliers are located in its close vicinity within the bounds of Pune and Mumbai; which helps the company to save on logistics and prevent any supply chain disruptions.

Healthy relationships with reputed clients and diversified customer base

MCPL was established in 1999, since then it has come a long way to become one of the very well-known chemical manufacturer in the country, they have Oman Oil Industry Supplies and Services Co. LLC, Indigo Paints Pvt. Ltd, Kansai Nerolac Paints Limited to name among a few as their customers. The top 10 customers of the company generate 43% of the total revenues; showing a moderate diversification of customers.

Moderate Scale of Operations

The company's top line exhibited a CAGR of 222% (over 3 years) since FY17, during which the top line was Rs. 48.38 Cr. which has increased to Rs. 81.74 Cr. in FY19 (provisional) – the company attributes the revenue increase to increased demand from the oil & gas industry wherein the chemicals sold are used in the up-keep as well as drilling and production of oil and gas. Moreover, the company is looking forward to add to its existing production capacity by investing in its production plant, for which they have applied for a term loan of Rs. 5.2 Cr.

Moderate Debt protection metrics

The gearing of the company stands at 1.25x in FY19 (provisional). The current and quick ratio were 1.33 & 0.89 in FY19 (provisional), respectively indicating moderate liquidity in

the short-run. The total debt of the company stands at Rs. 25.87 Cr. as in FY19 (provisional) which includes Rs 2.50 Cr of unsecured loans.

Key Rating Weaknesses

Stretched liquidity

The company has a moderately stretched liquidity profile marked by gross cash accruals of Rs. 3.70 Cr in FY18 which is low when compared to the yearly debt payments that they have to make. The company has working capital limits of Rs. 13.75 Cr. which they have been using at a monthly average of 93.33% and their outstanding term loan amount is Rs. 6.28 Cr.

Working capital intensive nature of operations

The average collection period was elongated at approximately 92 days and average inventory of 68 days in FY19 (provisional). 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 79 days to pay its suppliers.

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 & Applicable Criteria

Standalone Approach

Rating methodology for Manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity

Liquidity is moderately stretched, marked by slightly higher accruals to repayment obligations, highly utilized bank limits and modest cash balance. The GCA is improving with better capacity utilisation and sales.

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 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

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Combined)	(Provisional)
Total Operating Income	68.06	81.74
EBITDA	5.15	6.03
PAT	2.15	2.57
Total Debt	19.79	25.87
Tangible Networth	18.15	20.73
<u>Ratios</u>		
EBITDA Margin (%)	7.57	7.38
PAT Margin (%)	3.08	3.09
Overall Gearing Ratio (x)	1.09	1.25

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits – CC	Long Term	13.75	IVR BBB- / Stable Outlook	--	--	--
2.	Term Loan	Long Term	8.42	IVR BBB- / Stable Outlook	--	--	--
3.	Non Fund Based Limits – Bank Guarantee	Short Term	5.00	IVR A3	--	--	--
4.	(Proposed) Non Fund Based – Bank Guarantee	Short Term	0.06	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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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	--	--	--	13.75	IVR BBB- /Stable Outlook
Long Term Debt - Term Loan	--	--	--	8.42	IVR BBB- /Stable Outlook
Short Term Non-Fund Based Limits – Bank Guarantee	--	--	--	5.00	IVR A3
(Proposed) Short Term Non Fund Based Limits – Bank Guarantee	--	--	--	0.06	IVR A3