

Press Release

M/s Supreet Chemicals Pvt. Ltd

June 20, 2019

Ratings

Sr. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term - Fund Based Limits	4.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)
2	Short Term - Fund Based Limits	10.00	IVR A4+ (IVR A Four Plus)
3	Non-Fund Based Facilities	11.00	
	Total	25.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating is deriving strength from the highly experienced promoters and the management team, the well established supplier network, the reputed clientele, increasing top-line and the comfortable debt coverage indicators. The rating however is constrained by the working capital intensive operations, heavy dependence on the textile industry and the stiff competition from the other players. Improving profitability, competition and working capital management are the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and the management team

Mr.Harjindersingh Jaswantsingh Sarna, the managing director of the company, has an experience of more than two decades and is associated with the company since 1992. He is responsible for day to day operational affairs of the company. Mr.Manjeet Sarna is a chemical engineer and has 15 years of experience in chemical industry. He is responsible for matters related to technology up-gradation projects & is also looking after the development of business in the overseas market. Mr.Rajkumar Singh is a science graduate with more than 30 years of experience in production of inorganic chemicals. The promoters are assisted in the day-to-day operations by a team of qualified and experienced professionals with extensive industry experience.

Healthy Supplier network

The company has a good supplier network that includes both local and international players. Its top five suppliers constitutes around 30% of its total raw material purchases which indicates a moderately diversified supply network. Further, majority of its local suppliers are located in its close vicinity i.e., Gujarat and Maharashtra region; which helps the company to save on logistics.

Healthy relationship established with the reputed clientele

The company has a well-established clientele with a mix of both local and international firms. It has successfully formulated a mutually enriching relationship with its customers over the years, which can be seen from the repeat orders generated by the company. Reputed firms like Huntsman International and IPCA Laboratories are associated with the firm for more than a decade now. Approximately, 50% of its total revenue comes from its foreign customers. Albeit this exposes the company to foreign currency risks, the raw materials import provides a natural hedge to an extent.

Comfortable gearing and debt coverage indicators

Overall gearing of the company was comfortable as on account closing days of last three years. Long term debt-equity ratio stood at 0.11x as on March 31st 2019(PY -0.2x) with a strong interest coverage ratio of 32.15x (PY - 28.15) for the same period.

Key Rating Weaknesses

Profit susceptibility due to fluctuation in raw-material cost and foreign currency risk

The company has a well-established network of suppliers. However, it is susceptible to changes in prices of the raw materials as any fluctuations in procurement cost could lead to a substantial change in its bottom-line owing to the fact that raw materials cost alone contributes around 75% of company's total cost of production. To add to it, the raw materials are mainly derived from Benzene which is a natural constituent of crude oil. There is a positive correlation with crude oil prices and any increase in the price of oil leads to an increase in the price of raw materials. On an average the company earns 50% of its total revenue from exports and around 20% of its required raw materials are imported, which leaves it open to foreign exchange fluctuations.

Working capital intensive nature of operations

The average collection period was elongated at approximately 89 days and average inventory of 66 days in FY19. This implies working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On average, the company takes around 98 days to pay its suppliers. The cash conversion cycle for the company is around 57 days for FY19.

Risk associated with over-dependence on a single Industry (Textile)

The company's end products are mainly intended to be used by the textile industry, either directly or indirectly via another chemical manufacturing client. Its customer portfolio also includes food & beverages and pharmaceuticals companies, albeit in smaller proportion. Hence, any adverse impact on textile industry could prove to be risky for the company.

Highly competitive industry

Owing to the competitive nature of the industry, the company faces stiff competition from other numerous registered players based out of the same geographical region. As a direct consequence of this intensely competitive environment, the company has very low pricing power.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the company

Incorporated in 1992, Supreet Chemicals Pvt. Ltd (SCPL) is an established private limited company which is into manufacturing & exporting of inorganic chemicals, dyes & intermediates. Having three manufacturing facilities at Vapi, (GIDC) Gujarat. SCPL's principal products are chemicals intermediates and dyes which are used for commercial purposes in textiles and in pharmaceutical based utilities. Mr.Harjindersingh Jaswantsingh Sarna, Mr.Manjeetsingh Sarna and Mr.Rajkumar Singh are the promoters of the company. The company obtained MSME registration on April 1, 2009.

Financials (Standalone)

For the year ended / As on.	31-03-2017	31-03-2018
	<i>(Audited)</i>	<i>(Audited)</i>
Total Operating Income	134.29	153.76
EBITDA	6.73	8.86
PAT	2.7	4.14
Total Debt	36.18	35.12
Tangible Net worth	35.75	39.8
EBIDTA Margin (%)	5.01	5.77
PAT Margin (%)	2.01	2.69
Overall Gearing ratio (x)	1.01	0.88

* Classification as per Infomerics' standards

Any other information: N.A

Rating History for last three years:

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 & Rating assigned in 2017-18	Date & Rating assigned in 2016-17
Fund Based Facilities	Long Term - Cash credit (CC)	4.00	IVR BB+/Stable	--	--	--
	Short Term - EPC/PCFC/ FBP	10.00	IVR A4+			

Non - Fund Based Facilities	Short Term - BG/LC/ CEL	11.00	IVR A4+	--	--	--
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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.

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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	Rating Assigned/ Outlook
				(Rs. Crore)	
Long Term Fund Based Limits (CC)	--	--	--	4	IVR BB+/Stable
Short Term Fund Based Facilities (EPC/PCFC/FBP)	--	--	--	10	IVR A4+
Short Term Non - Fund Based Facilities (BG/LC/CEL)	--	--	--	11	IVR A4+