July 19, 2022 (Revised)

Haresh Overseas Private Limited: Long-term rating upgraded; short-term rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based: Working capital facilities	5.00	5.00	[ICRA]B+(Stable); upgraded from [ICRA]B(Stable)
Fund-based: Term loans	0.92	-	-
Non-fund based facilities	34.37	34.37	[ICRA]A4; reaffirmed
Unallocated	0.00	0.92	[ICRA]B+(Stable); upgraded from [ICRA]B(Stable)
Total	**40.29**	**40.29**	

Rationale

The upgrade in the rating factors in an improvement in the scale of operations and profit margins of Haresh Overseas Private Limited (HOPL). In FY2022, the operating income grew 106% to Rs.134 crore from Rs.65 crore in FY2021; the operating profit margin also increased to 7.1% in FY2022 from 4.3% in FY2021 on account of lower provisions for bad debt. The ratings continue to consider the extensive experience of the promoters in the chemical trading business and the company's reputed customer base.

The ratings are, however, constrained by the company's small net worth base and its adverse leverage (TOL/TNW as on March 31, 2022) and debt coverage indicators. The profits are also susceptible to the volatility in chemical prices, and foreign exchange fluctuations as the entire traded goods are procured from overseas. ICRA also considers the intense competition in the petrochemical trading industry owing to the presence of several organised and unorganised players, which limits the pricing flexibility.

The Stable outlook on the rating reflects ICRA's expectation that HOPL will benefit from its long track record of operations and maintain its credit profile, backed by expected sustained revenue growth and efficient working capital management.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters – HOPL's promoters have been in the petrochemical and speciality chemical industry for more than three decades. The extensive experience and expertise of the promoters helped HOPL in maintaining long relationships with established overseas suppliers.

Established relationships with reputed clientele translate into repeat orders – The company has long-term relationships with reputed customers like Berger Paints India Limited, Speciality Industrial Polymers & Coatings Pvt. Ltd. and other large paint manufacturers and have received consistent orders from them over the years. In FY2022, it derived ~51% of its revenue from the top 10 customers, indicating a moderately diversified customer base.

Improvement in scale and profitability - HOPL's operating income grew by 106% to Rs.134 crore in FY2022 compared with Rs.65 crore in FY2021 as healthy demand and higher realisations pushed up sales volumes. The company's operating margins have increased to 7.1% in FY2022 from 4.3% in FY2021 mainly on account of lower provisioning of bad debt. The net margins of the company also improved to 8.5% in FY2022 from 3.6% in FY2021, supported by improved OPM and profits on the sale of the guar gum manufacturing unit. HOPL booked a profit of Rs.4.15 crore from the sale of the guar gum powder manufacturing unit, which supported the overall cashflows.

Credit challenges

Adverse capital structure and moderate debt coverage indicators- The company's financial risk profile remains average owing to a small net worth base (Rs.11.5 crore as on March 31, 2022) and adverse capital structure. The company has high reliance on creditor funding which has resulted in high outside liabilities, reflected in TOL/TNW of 5.1 times (though improved from 327.6 times in FY2021). The coverage indicators have improved in FY2022 with the improvement in profitability. Going forward, with the anticipated decline in margins (OPM of ~4-4.5%) owing to adverse forex rate movement and stiff competition, the debt protection metrics are expected to remain at moderate levels.

Profitability exposed to volatility in raw material prices and forex rates – The inventory prices and profit margins remain vulnerable to the commodity price cycles, with HOPL trading in commodity chemicals. Though a major part of the purchases are order backed, the company holds up to two months of inventory for some products. The prices primarily move in line with international demand and supply scenario and are subject to considerable volatility, depending on the crude oil price movements. Thus, its margins remain susceptible to any adverse price movements. The chemicals that HOPL trades in are imported primarily from Saudi Arabia and Thailand. However, exports form a minor portion of the total sales, exposing the company to foreign currency fluctuation risk in the absence of any natural hedge. However, the company has now started hedging a major portion (60-70%) of its forex exposure, which will provide stability to the margins in the coming years.

Intense competition in fragmented trading business – The chemical trading business is characterised by stiff competition owing to the presence of many companies in the organised and unorganised sectors limiting HOPL's pricing flexibility.

Liquidity position: Stretched

The company's liquidity position continues to be stretched given the sizeable LC maturities in the near term. Further, the company's debt servicing ability completely depends on the timeliness of the receivable receipt, given the almost full utilisation of the working capital limits. HOPL also avails ad-hoc LC limits, backed by 100% margin on FDs on need basis. The company has proposed an enhancement in the overall working capital limits, which is expected to support the liquidity profile.

Rating sensitivities

Positive factors - ICRA could upgrade HOPL's ratings if the company demonstrates a sustained improvement in scale and profit margins, leading to an improvement in the key debt protection metrics and liquidity position.

Negative factors - Negative pressure on HOPL's ratings could arise if there is a deterioration in the company's scale and profitability, or if any stretch in the working capital cycle adversely impacts the key credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for chemical companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

HOPL was incorporated in 1983 and is managed by Mr. Kailash S. Kasat at present. The company is headquartered in Mumbai (Maharashtra) with branch offices in Cochin (Kerala), Gandhidham (Gujarat) and Jodhpur (Rajasthan). It is involved in the trading, marketing and distribution of petrochemicals and solvents.

Key financial indicators

	FY2020	FY2021	FY2022 Provisionals
Operating income (Rs. crore)	95.9	65.1	134.1
PAT (Rs. crore)	(3.4)	2.3	11.4
OPBDIT/OI (%)	0.4%	4.3%	7.1%
PAT/OI (%)	-3.6%	3.6%	8.5%
Total outside liabilities/Tangible net worth (times)	(16.3)	327.6	5.1
Total debt/OPBDIT (times)	33.2	2.2	0.6
Interest coverage (times)	0.3	2.5	7.5
DSCR (times)	(1.3)	2.6	8.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					July 19, 2022	July 6, 2021	Feb 26, 2020	May 13, 2019
1	Cash Credit	Long Term	5.00	-	[ICRA]B+ (Stable)	[ICRA]B (Stable)	[ICRA]B- (Stable)	[ICRA]B- (Stable)
2	Letter of Credit	Short Term	34.37	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Term Loan	Long Term	0.00	-	-	[ICRA]B (Stable)	[ICRA]B- (Stable)	[ICRA]B- (Stable)
4	Unallocated	Long Term	0.92	-	[ICRA]B+ (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based limits- Cash Credit	Simple
Non-fund based facilities – Letter of Credit	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]B+(Stable)
NA	Letter of Credit	NA	NA	NA	34.37	[ICRA]A4
NA	Unallocated	NA	NA	NA	0.92	[ICRA]B+(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Document dated July 19, 2022 has been corrected with revision as detailed below:

Rating methodology for chemical companies added in analytical approach.

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