February 18, 2022

Chowgule Construction Chemicals Private Limited: Ratings downgraded, removed from watch with negative implications and Stable outlook assigned; removed from Issuer Not-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based - Cash Credit	7.5	6.0	[ICRA]A-(CE)(Stable); downgraded from [ICRA]A(CE) and removed from watch with negative implications; Stable outlook assigned; Rating removed from Issuer Not-Cooperating category
Short-Term Non-Fund Based - Letter of Credit	2.5	2.5	[ICRA]A2+(CE); downgraded from [ICRA]A1(CE) and removed from watch with negative implications; Rating removed from Issuer Not-Cooperating category
Short-Term Non-Fund Based - Bank Guarantee	(2.5)	(2.5)	[ICRA]A2+(CE); downgraded from [ICRA]A1(CE) and removed from watch with negative implications; Rating removed from Issuer Not-Cooperating category
Total	**10.0**	**8.5**	
Rating Without Explicit Credit Enhancement			[ICRA]BB-/[ICRA]A4

* *Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

ICRA had placed the ratings of Chowgule Construction Chemicals Private Limited (CCCPL or the company), which were backed by the corporate guarantee extended by Chowgule Industries Private Limited (CIPL) (rated [ICRA]A(Stable)/ [ICRA]A1), on watch with negative implications in January 2021 following the business restructuring announced within the Chowgule Group, and expected implications on the guarantor's credit profile. As per the restructuring, the family business has been split into two groups – one headed by Mr. Padma Chowgule (Group A) and the other by Mr. Vijay Chowgule (Group B), with CIPL as a part of Group B, along with ship repair, construction chemical and port businesses.

Following the restructuring, the rating of the guarantor – CIPL - was removed from watch with negative implications and a Stable outlook was assigned. Accordingly, the ratings of CCCPL have also been removed from watch with negative implications and a Stable outlook has been assigned. However, CCCPL's ratings have been revised to [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) from [ICRA]A(CE)(Stable)/[ICRA]A1(CE) due to the deterioration in its credit profile because of a weak operational and financial performance in FY2021. The rating without explicit credit enhancement has also been revised to [ICRA]BB-/[ICRA]A4 from [ICRA]BB+/[ICRA]A4+. ICRA has also removed the ratings assigned to CCCPL's bank facilities from the Issuer Not-Cooperating category.

Adequacy of credit enhancement

The rating action is based on the guarantee which is legally enforceable, joint and several, unconditional and covers the entire amount and tenure of the rated instrument. Nevertheless, the guarantee is devoid of any defined invocation and payment mechanism. The guarantee can be revoked by the guarantor giving a three-months' notice. However, in case the guarantor revokes or discontinues the guarantee, the captioned rating will not apply with respect to any incremental exposure taken by the bank on the borrower, after the revocation or discontinuation notice is sent by the guarantor. In such a case, the rating on the facility will have to be reviewed. Given these attributes, the guarantee provided by CIPL is adequately strong to result in a rating enhancement of the said instrument to [ICRA]A-(CE)/[ICRA]A2+(CE) against the rating of [ICRA]BB-/[ICRA]A4 without explicit credit enhancement. In case the guarantor's rating undergoes a change in the future, the same would also reflect in the rating of the aforesaid instrument.

Salient covenants of the rated facility

- The company will not make any material change in its capital structure, shareholding pattern/management, formulate any scheme of amalgamation, merger or reconstruction without prior consent from the bank.
- During the currency of the loan, the borrower can resort to finance from any other financial institution only with prior approval from the bank, and owner's stake in the business shall not be diluted.
- Promoters' shares shall not be pledged without the specific permission from the bank for each such pledge.
- The credit facilities are not available for investment in shares, debentures, advances and inter-corporate loans/deposits to other companies (including subsidiary companies).

Key rating drivers and their description

Credit strengths

Part of Chowgule Group; corporate guarantee from CIPL - The company is promoted by the well-reputed Chowgule Group. It benefits from the Group companies' financial support in the form of equity infusion/unsecured loans, that helps reduce its reliance on external borrowings. Additionally, CCCPL's credit profile is enhanced by the corporate guarantee provided by a Group company, CIPL, for the above-rated bank limits.

Established track record and reputed customer profile - The Chowgule Group ventured into the waterproofing solutions business in 1994 through another Group company and later, in 2004, set up CCCPL as a joint venture (JV) with a German company. The company enters into contracts with major customers based on tenders and sometimes on negotiations, depending on the specific jobs. Some of the company's key customers include Larsen & Toubro, Shapoorji Pallonji Construction, Marathon Group, S Raheja Group, Tata Housing Development Company, etc. from whom CCCPL gets repeat orders.

Credit Challenges

Moderate scale of operations; weak profitability and return indicators - The company's scale of operations continues to be moderate. Its operating income was Rs. 20.7 crore at a consolidated level, witnessing a decline of ~56% in FY2021 due to pandemic-led disruptions and steps taken by the company to reduce exposure to clients with weaker credit profiles. However, in the current fiscal, the company's performance has witnessed some improvement with revenues at Rs. 13.5 crore on a standalone basis in H1 FY2022. Further, due to increased competition and a slowdown in the real estate industry, the company reported losses in the previous years that eroded its net worth and consequently, worsened the capital structure and coverage indicators. As on March 31, 2021, the tangible net worth on a consolidated basis was Rs. -17.9 crore.

High working capital intensity - CCCPL's working capital intensity on a consolidated basis was 22.5% in FY2021, while on a standalone basis it was at 60.9% due to high inventory holding (~82 days) and an increase in debtor days (~311 days), following the stretched liquidity position of several real estate players and retention money retained by clients.

Susceptibility of profitability to fluctuations in input and forex prices - CCCPL's primary raw materials include powder chemicals, liquid chemicals, bituminous chemicals and other additives. While the contract prices are fixed at the time of signing the contracts, the raw materials are generally procured over the execution period (ranging from around 6-18 months), exposing the company's profitability to the adverse fluctuations in raw material prices. Further, a significant portion of the company's raw material requirement is met through imports from reputed suppliers due to high-quality specifications, exposing its profitability to the volatility in foreign exchange prices in the absence of any firm hedging policy.

Liquidity position

Chowgule Industries Private Limited (Guarantor): Strong

The company's liquidity profile has been supported by healthy cash accruals in the past, along with free cash and cash equivalents of Rs. 65 crore as on March 31, 2021. Working capital utilisation has been nil in the current fiscal, lending support to its liquidity profile in the form of unutilised limits of Rs. 108 crore. In the absence of any major debt-funded capital expenditure (capex) or funding support to Group companies, CIPL's liquidity is expected to be healthy, going forward.

Chowgule Construction Chemicals Private Limited: Stretched

CCCPL's liquidity profile is stretched due to subdued financial performance and high working capital intensity, leading to high utilisation of working capital limits (~95% in last 12 months). The company has long-term repayment obligation of Rs. 0.3 crore in FY2022 and Rs. 0.5 crore in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade CCCPL's ratings if there is an improvement in the guarantor's (CIPL) credit profile. The ratings may also be upgraded if CCCPL shows a healthy growth in revenue and profitability on a sustained basis while maintaining the working capital intensity that would improve its credit metrics and liquidity profile.

Negative factors – Negative pressure on CCCPL's ratings could arise if there is a weakening in the guarantor's credit profile. Further, cessation of support or weakening of linkages from the parent group may also lead to negative pressure on ratings. A significant decline in scale and profitability leading to a decline in cash accruals and overall weakening of the financial risk profile or a significant stretch in the working capital cycle and liquidity may also lead to a rating downgrade.

Link **to** the rating rationale of the support provider, CIPL**.**

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Chemical Industry Approach for Rating Debt Instruments Backed by Third-Party Explicit Support
Parent/Group Support	Group company: Chowgule Industries Private Limited Explicit support in the form of corporate guarantee for the rated bank lines.
Consolidation/Standalone	The ratings are based on the consolidated financials of the rated entity and its subsidiary, Allied Construction Technologies, INC.

About the company

Chowgule Construction Chemicals Private Limited (CCCPL) is a part of Goa-based Chowgule Group. CCCPL is engaged in manufacturing construction chemicals offering solutions in waterproofing, concrete repair, floor coatings, pre and postconstruction activities, with waterproofing solutions being a primary product of the company. The company has a contracting division, which carries out large projects on a turn-key basis. The Chowgule Group ventured into this business in 1997 through another Group company. In 2004, Chowgule Group set up CCCPL as a JV with Germany-based Koster Bauchemie, one of the major raw-material suppliers. Thereafter, the company was not able to effectively compete in the market due to the high cost of chemicals/raw materials supplied by Koster. Thus, in 2011, Chowgule Group bought out Koster's share in CCCPL. Subsequently, the Group transferred the contracting business to CCCPL from CIPL. CCCPL's production plant in Goa has a current capacity of 2,500 tons per annum (TPA) (on a single-shift basis).

Key financial indicators - Standalone (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	32.7	14.1
PAT (Rs. crore)	(3.7)	1.7
OPBDIT/OI (%)	-8.6%	-28.4%
PAT/OI (%)	-11.3%	12.1%
Total Outside Liabilities/Tangible Net Worth (times)	(18.9)	(74.7)
Total Debt/OPBDIT (times)	(9.6)	(5.2)
Interest Coverage (times)	(1.4)	(2.7)
DSCR(times)	(0.9)	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators - Consolidated

Consolidated*	FY2020	FY2021
Operating Income (Rs. crore)	47.3	20.7
PAT (Rs. crore)	(4.7)	2.4
OPBDIT/OI (%)	-7.8%	-16.0%
PAT/OI (%)	-9.8%	11.6%
Total Outside Liabilities/Tangible Net Worth (times)	(2.5)	(2.4)
Total Debt/OPBDIT (times)	(8.2)	(9.9)
Interest Coverage (times)	(1.9)	(1.6)
DSCR(times)	(1.0)	2.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, *Consolidated has been done ICRA's analyst*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 18, 2022	May 17, 2021	Jan 25, 2021	Jul 25, 2019	-	Feb 16, 2018
1	Cash Credit	Long Term	6.0	5.9	[ICRA]A-(CE) (Stable)	[ICRA]A(CE)@ ISSUER NOT COOPERATING	[ICRA]A(CE)@	[ICRA]A(SO) (Negative)	-	[ICRA]AA- (Stable)
2	Letter of Credit	Short Term	2.5	-	[ICRA]A2+ (CE)	[ICRA]A1(CE)@ ISSUER NOT COOPERATING	[ICRA]A1(CE)@	[ICRA]A1(SO)	-	[ICRA]AA- (Stable)
3	Bank Guarantee*	Short Term	(2.5)	-	[ICRA]A2+ (CE)	[ICRA]A1(CE)@ ISSUER NOT COOPERATING	[ICRA]A1(CE)@	[ICRA]A1(SO)	-	[ICRA]A1+

*@ Under watch with negative implication; *sub-limit of Letter of Credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based-Cash Credit	Simple
Non-Fund based- Letter of credit	Very Simple
Non-fund based-Bang Guarantee	Very Simple

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.0	[ICRA]A-(CE)(Stable)
NA	Letter of Credit	NA	NA	NA	2.5	[ICRA]A2+(CE)
NA	Bank Guarantee	NA	NA	NA	(2.5)	[ICRA]A2+(CE)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Chowgule Construction Chemicals Limited	100% (rated entity)	Full Consolidation
Allied Construction Technologies, INC	100%	Full Consolidation

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