October 30, 2023

Metropolitan Eximchem Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based limit - Term loan	25.00	23.54	[ICRA]A(Stable); reaffirmed
Short-term, fund-based limits	11.50	8.00	[ICRA]A1; reaffirmed
Short-term, non-fund based limits	13.75	12.55	[ICRA]A1; reaffirmed
Long-term/Short-term - Fund based and non-fund based**	5.00	5.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Long-term/Short-term unallocated	24.75	30.91	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	**80.00**	**80.00**	

**Instrument details are provided in Annexure-I*

*** Overdraft facility should not exceed Rs. 5 crore; pre-shipment/post-shipment/CC limit should not exceed Rs. 5.00 crore; LC should not exceed Rs. 4.5 crore and BG should not exceed Rs. 2.00 crore.*

Rationale

The reaffirmation of the ratings takes into account Metropolitan Eximchem Private Limited's (MEPL) healthy financial profile, characterised by strong tangible net worth, comfortable coverage indicators and a healthy liquidity profile. The company reported an operating income (OI) of Rs. 308 crores in FY2023 compared with Rs. 224 crore in FY2022. The company reported an OPM of 17.3% and NPM of 9.6% in FY2023. Further, the ratings factor in the company's strong liquidity position, demonstrated in the availability of cash and cash equivalents/investments of around Rs. 60 crore as on March 31, 2023.

The rating reaffirmation continues to factor in the company's diversified profile of niche products, entailing better margins and limiting the competition. The ratings derive comfort from the management's strong technical expertise in the chemical manufacturing business spanning over five decades, supported by established business relationships with reputed customers in the domestic and overseas markets.

The new unit at Jagadia (Gujarat) became operational from Q4 FY2022 and is being utilised at optimal levels. Another capex of around Rs. 50 crore is being planned for Jhagadia over FY2024 and FY2025, which is likely to be debt funded, if the insurance claim for the fire incident is not received in time. Further, the revenue generation in FY2024 is likely to witness headwinds, given the substantial decline in prices of its key products and the tepid demand conditions. Further, due to the nature of its operations, the company remains exposed to environmental risks. ICRA also notes the susceptibility of its margins to currency fluctuations, although a natural hedge from exports mitigates this risk to some extent.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the credit profile of MEPL is likely to remain comfortable despite expectation of a moderation in the cash flow generation and the company will continue to benefit from the extensive experience of its promoters in the chemical industry and its niche product profile.

Key rating drivers and their description

Credit strengths

Comfortable debt protection indicators and healthy liquidity position – MEPL's healthy net cash accruals and its strong liquidity has limited the company's reliance on external borrowings. The total debt as on March 31, 2023, comprised Rs. 6.43

crore of term loan for the capex and property and working capital borrowings of Rs. 4.85 crore. The company's tangible net worth was strong at Rs. 324.24 crore as on March 31, 2023, following the healthy accruals. The gearing, as on March 31, 2023, stood at 0.03 times. The debt protection metrics also continued to be sturdy. The liquidity profile also remains strong, given the availability of healthy cash and cash equivalents/investments of around Rs. 60 crore as on March 31, 2023, which gives cushion against periods of slowdown in cash flow generation.

Diversified profile of high-margin niche products limits competition – MEPL develops highly specialised products, supported by its strong in-house research and development (R&D) as well as its collaboration with customers. As the products are highly specialised in nature, requiring technical expertise, MEPL can command higher margins for them. This also limits competition from domestic and overseas players. Moreover, it takes time to develop the products according to a customer's needs and specifications. Hence, it is difficult for a customer to shift to another supplier.

Extensive experience of MEPL's management in the chemical industry – The company is managed by the promoter, Mr. Nagin Sheth, along with his son, Mr. Rajiv Sheth. The management has a strong technical expertise in the chemical manufacturing business spanning over five decades. This ensures established business relationships with reputed customers in the domestic and overseas markets.

Credit challenges

Demand pressures and decrease in prices of material expected owing to recessionary fears – The company reported an OI of Rs. 308 crore in FY2023. However, in the first six months of FY2024, MEPL achieved sales of only ~Rs. 110 crore because of the decrease in the prices of its key products and tepid demand conditions. Though the sales are expected to recover to some extent in the second half of the year, growth is likely to decline in FY2024. Demand from European nations like Germany and Italy remain under pressure, resulting in muted exports to these nations and constraining revenue generation.

Vulnerability to high regulatory risk due to the nature of operations – The chemical industry attracts considerable attention on issues related to air/water pollution. The implementation of stringent pollution control norms led to the operational closure of many players, who could not meet the control standards. Further, the Dombivali unit's presence within city limits increases the risk of tightened regulations, making MEPL's operations vulnerable to any unfavourable regulatory (environmental) policy changes.

Margins susceptible to foreign currency fluctuations and inventory risk – MEPL's profitability is exposed to the volatility in foreign currency exchange rates as exports account for 60-80% of its total revenues. Any adverse movement in the rupee-dollar exchange rate could have a significant impact on its margins. However, the forex fluctuation risk is partly mitigated to an extent by natural hedging as imports account for 15-20% of MEPL's total purchases. Moreover, the company enters into forward contracts, depending on the prevailing market conditions. At present, as the dollar rate is stable, the management is not hedging.

Liquidity position: Strong

The company's liquidity position is strong, reflected in the free cash balance of Rs. 11.59 crore and liquid investments (in quoted mutual funds and shares) of Rs. 49.29 crore as on March 31, 2023. The company is contemplating to undertake a capex of around Rs. 50 crore at Jhagadia over FY2024 and FY2025 and may avail debt if the insurance claim is not received in time. The liquidity is also supported by undrawn limits against the considerable drawing power enjoyed by the company. MEPL also has repayment obligations of Rs. 5.00-7.00 crore annually for the next three years.

Rating sensitivities

Positive factors – An upward movement in the ratings could take place if there is a sustained growth in the operating income and profitability amid a healthy liquidity position.

Negative factors – The rating can be revised downwards in case of a significant decline in operating income and profitability, leading to pressure on the liquidity position. A total debt/OPBDITA above 2.3 times on a sustained basis can also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Chemical Industry](#)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

MEPL manufactures speciality chemicals and intermediates, which find application in diverse industries such as textiles, paints, electronics, plastics and agriculture. The company's registered office is in Mumbai and its manufacturing units are in Dombivli (Thane district, Maharashtra) and Jagadia (Gujarat) with a total installed production capacity of 6,550 metric tonnes per annum (MTPA). Its operations are ISO 9001:2015 certified. Melog Speciality Chemicals Pvt. Ltd. (MSCPL) and Sunbeam Monochem Pvt. Ltd. are MEPL's associate companies, manufacturing monomers, speciality chemicals and dye intermediates. In FY2022, MEPL bought additional shares from OG Corporation and is now holding 48.95% of MSCPL's shares.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	224.4	308.4
PAT	34.8	29.5
OPBDIT/OI	16.7%	17.3%
PAT/OI	15.5%	9.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.8	0.2
Interest coverage (times)	14.9	33.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on 31st March, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 30, 2023	Nov 01,2022	Nov 24,2021	Jan 07,2021
1	Term loan	Long term	23.54	6.43	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Pre-shipment and post-shipment credit	short term	8.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Letter of credit	short term	12.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Bank guarantee	short term	0.30	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	MTM limits	short term	0.25	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
6	Fund-based and non-fund based*	Long term and short term	5.00	-	[ICRA]A(Stable) /[ICRA]A1	[ICRA]A(Stable) /[ICRA]A1	[ICRA]A(Stable) /[ICRA]A1	-
7	Unallocated amount	Long term and short term	30.91	-	[ICRA]A(Stable) /[ICRA]A1	[ICRA]A(Stable) /[ICRA]A1	[ICRA]A(Stable) /[ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

**Overdraft facility should not exceed Rs. 5 crore; pre-shipment/post-shipment/CC limit should not exceed Rs. 5.00 crore; LC should not exceed Rs. 4.5 crore and BG should not exceed Rs.2.00 crore.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Pre-shipment and post-shipment credit	Simple
Letter of credit	Very Simple
Bank guarantee	Very Simple
MTM	Very Simple
Fund-based and non-fund based*	Simple
Unallocated amount	Not applicable

**Overdraft facility should not exceed Rs.5 crore; pre-shipment/post-shipment/CC limit should not exceed Rs. 5.00 crore; LC should not exceed Rs. 4.5 crore and BG should not exceed Rs. 2.00 crore.*

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	March 2021	7.50%	FY2027	23.54	[ICRA]A (Stable)
NA	Pre-shipment and post-shipment credit	NA	NA	NA	8.00	[ICRA]A1
NA	Letter of credit	NA	NA	NA	12.00	[ICRA]A1
NA	Bank guarantee	NA	NA	NA	0.30	[ICRA]A1
NA	MTM	NA	NA	NA	0.25	[ICRA]A1
NA	Fund-based and non-fund based*	NA	NA	NA	5.00	[ICRA]A(Stable)/[ICRA]A1
NA	Unallocated amount	NA	NA	NA	30.91	[ICRA]A(Stable)/[ICRA]A1

*Source: Company; *Overdraft facility should not exceed Rs.5 crore; pre-shipment/post-shipment/CC limit should not exceed Rs.5.00 crore; LC should not exceed Rs.4.5 crore and BG should not exceed Rs.2.00 crore.*

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

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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