

March 22, 2024

Chowgule Construction Chemicals Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based/Non-fund based limits	-	12.0	[ICRA]BB-(Stable)/[ICRA]A4; reaffirmed and assigned for enhanced limit
Long term – Fund-based - Cash credit	6.0	-	-
Short term – Non-fund based – Letter of credit	2.5	-	-
Short term – Non-fund based – Bank guarantee	(2.5)	-	-
Total	8.5	12.0	

*Instrument details are provided in Annexure-I

Rationale

The rating action considers the benefit that Chowgule Construction Chemicals Private Limited (CCCPL/the company) has from being a part of the Chowgule Group – Chowgule Industries Private Limited (CIPL, rated [ICRA]A(Stable)/[ICRA]A1/the support provider). The Group has extended regular financial support in the form of unsecured loans to CCCPL in the last few years, while the company faced losses. The ratings also take note of the long track record of the company in providing waterproofing solutions and a reputed customer profile with repeat business from the customers.

The ratings are constrained by the modest scale of the company's operations, low profitability margins and high working capital intensity. The ratings also reflect the vulnerability of the company's profitability and cash flows to the cyclicity in the real estate and construction industries and the volatility in raw material prices. The ratings are also constrained by the high competitive intensity of the industry and the vulnerability of profitability to currency fluctuations.

On January 14, 2021, the Chowgule Group announced the restructuring of its businesses into two separate groups by signing a memorandum of family settlement (MoFS). 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. The division of the businesses was finalised between the two groups; there is an ongoing arbitration between the two groups on some issues, but the outcome would not materially impact either the division of the businesses or the operation of the company. ICRA continues to monitor the development on this front.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its long track record and support from the promoter group.

Key rating drivers and their description

Credit strengths

Part of Chowgule Group – The company is promoted by the well-reputed Chowgule Group. The company benefits from the parent's financial support in the form of unsecured loans as well corporate guarantees for availing the bank facilities.

Established track record and reputed customer profile – The Chowgule Group ventured into waterproofing solutions 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 job. Some of the company's key customers include the Marathon Group, Larsen & Toubro, Shapoorji Pallonji, S Raheja Group, Oberoi Group, Piramal 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. 32 crore at a consolidated level, growing ~21% in FY2023 due to an improvement in construction and real estate activities along with structural changes in the organisation. Further, the company reported an operating profit of ~Rs. 1.1 crore compared to an operating loss of ~Rs. 5.2 crore in FY2022. The profitability in the last few years was also impacted by a sharp increase in raw material costs, while the contracts were largely fixed cost in nature.

ICRA takes note of the company's initiatives to increase the share of sales to applicators where the ability to pass on the input cost escalations are expected to be relatively better. Moreover, steps such as developing a franchisee of applicators and selling some products on a private label basis are expected to improve the profitability. However, the translation of these efforts into a sustained improvement in financial performance remains to be seen and will be monitored.

Due to the losses in recent years, the company's net worth has been eroded and consequently, its capital structure and coverage indicators have worsened. As on March 31, 2023, the tangible net worth on a consolidated basis was -Rs. 21.6 crore (PY Rs. -20.7 crore).

High working capital intensity – CCCPL's working capital intensity, on a standalone basis, stood high with NWC/OI at ~36% in FY2023 due to high debtor days, following the stretched liquidity position of several real estate players and the retention money retained by clients. On a consolidated basis, the NWC/OI stood at ~12% in FY2023 compared with ~7% in FY2022.

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 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 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: Stretched

CCCPL's liquidity profile is stretched due to a subdued financial performance and high working capital intensity, leading to high utilisation of working capital limits. On a consolidated basis, the company's unencumbered cash balance and investments stood at ~Rs. 0.4 crore as on March 31, 2023. The company has long-term repayment obligations of Rs. 0.67 crore in FY2024 and FY2025 each. However, ICRA notes that the company has received support from group entities in the form of unsecured loans in the last few years.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a healthy growth in revenue and profitability on a sustained basis while maintaining the working capital intensity, leading to an improvement in its credit metrics and liquidity profile. Further, an improvement in the credit profile of the support provider could be a positive trigger.

Negative factors – Pressure on CCCPL's ratings could arise if there is a weakening in the support provider's credit profile or weakening of linkages with the support provider. Further, a significant decline in scale and profitability, reducing the cash accruals on a sustained basis, could affect the ratings. A stretch in the working capital cycle, weakening the overall financial/liquidity profile, may also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemical Industry
Parent/Group support	Group company: Chowgule Industries Private Limited The ratings consider the likelihood of the parent - CIPL - extending support to CCCPL, should the need arise
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 the Goa-based Chowgule Group. CCCPL manufactures construction chemicals and offers solutions in waterproofing, concrete repair, floor coatings, pre and post construction activities, with waterproofing solutions being a major product of the company. The company has a contracting division, which carries out large projects on a turnkey basis.

The Chowgule Group ventured into this business in 1997 through another group company. In 2004, the Chowgule Group set up CCCPL as a joint venture with Koster Bauchemie, Germany, which was 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, the Chowgule Group bought out Koster's share in CCCPL. Subsequently, the Group also transferred the contracting business to CCCPL from CIPL. CCCPL's production plant is in Goa with a current capacity of 2,500 tonnes per annum (TPA) on a single-shift basis.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	26.5	32.0
PAT	(2.5)	0.01
OPBDIT/OI	-19.7%	3.5%
PAT/OI	-9.4%	0.02%
Total outside liabilities/Tangible net worth (times)	(2.1)	(2.1)
Total debt/OPBDIT (times)	(6.5)	33.3
Interest coverage (times)	(5.2)	0.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 22, 2024	Jan 12, 2023	Feb 18, 2022	May 17, 2021	Jan 25, 2021
1 Fund-based/Non-fund based limits	Long term/Short term	12.0	-	[ICRA]BB-(Stable)/[ICRA]A4	-	-	-	-
2 Cash credit	Long term	-	-	-	[ICRA]A-(CE) (Stable) withdrawn and simultaneously [ICRA]BB-(Stable) assigned	[ICRA]A-(CE) (Stable)	[ICRA]A(CE)@ ISSUER NOT COOPERATING	[ICRA]A(CE)@
3 Letter of credit	Short term	-	-	-	[ICRA]A2+(CE) withdrawn and simultaneously [ICRA]A4 assigned	[ICRA]A2+(CE)	[ICRA]A1(CE)@ ISSUER NOT COOPERATING	[ICRA]A1(CE)@
4 Bank guarantees*	Short term	-	-	-	[ICRA]A2+(CE) withdrawn and simultaneously [ICRA]A4 assigned	[ICRA]A2+(CE)	[ICRA]A1(CE)@ ISSUER NOT COOPERATING	[ICRA]A1(CE)@

@ Under watch with negative implication; * sub-limit of letter of credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based/Non-fund based limits	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based/Non-fund based limits	NA	NA	NA	12.0	[ICRA]BB-(Stable)/ [ICRA]A4

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Chowgule Construction Chemicals Limited	100.00% (rated entity)	Full Consolidation
Allied Construction Technologies, INC	100%	Full Consolidation

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Varun Gogia

+91 124 4545 319

varun.gogia1@icraindia.com

Kushal Shah

+91 79 4027 1527

kushal.shah@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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