

January 28, 2025

Metropolitan Eximchem Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term - Fund-based Limits	8.00	8.00	[ICRA]A1; reaffirmed
Short-term – Non fund based Limits	12.55	12.55	[ICRA]A1; reaffirmed
Long-term- Fund based - Term Loan	23.54	18.42	[ICRA]A (Stable); reaffirmed
Long-term/Short-term- Fund Based /Non-fund Based*	5.00	5.00	[ICRA]A (Stable)/[ICRA]A1; reaffirmed
Long-term/Short-term -Unallocated	30.91	36.03	[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; preshipment/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 robust liquidity profile. The company reported a 15% decline in the operating income in FY2024 to Rs. 261 crore owing to moderation in end demand. However, the same is expected to witness some recovery from this quarter as the enquiries have improved. The company reported an OPM of 13.1% and NPM of 14.5% in FY2024, largely driven by healthy non-operating income and receipt of insurance claim. Further, the ratings factor in the company's strong liquidity position, demonstrated in the availability of cash and cash equivalents/investments of around Rs. 94.90 crore as on March 31, 2024, which increased to Rs 112.11 crore as on September 30, 2024.

The ratings 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 capex of Rs. 60-80 crore is being undertaken in Jhagadia. It started in October 2024 and is expected to be completed by September 2025. It will be funded largely through internal accruals, with some reliance on debt, however capital structure and leverage metrics will remain comfortable. 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 expectations 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 have limited the company's reliance on external borrowings. The total debt as on March 31, 2024, comprised Rs. 4.11 crore of term loan for the capex and property and working capital borrowings of Rs. 4.00 crore. The company's tangible net

worth was strong at Rs. 361.66 crore as on March 31, 2024, following the healthy accruals. The gearing, as on March 31, 2024, stood at 0.02 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 Rs. 99.51 crore as on March 31, 2024, 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 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 expected owing to recessionary fears – The company reported an OI of Rs. 261.01 crore in FY2024 and Rs 129.51 crore in the first six months of FY2024 because of tepid demand conditions. However, the sales are expected to recover in the second half of the year. Restocking has started and foreign customers have started placing orders at present. Q3 FY2025 has been better than H1 FY2025 and Q4 FY2025 is expected to be even better.

Vulnerability to high regulatory risk due to 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. In the current scenario, wherein the rupee is depreciating against dollar, the company is benefiting as it is a net exporter.

Liquidity position: Strong

The company's liquidity position is strong, reflected in the free cash balance of Rs. 4.61 crore and liquid investments (in quoted mutual funds and shares) of Rs. 94.90 crore as on March 31, 2024. The company is undertaking a capex of Rs. 60-80 crore at Jhagadia over FY2024 and FY2025 and may avail debt, if the insurance claim is not received in time. Liquidity is also supported by undrawn limits against the considerable drawing power enjoyed by the company. MEPL also has repayment obligations of Rs. 2.00-6.00 crore annually for the next three years, which will be met comfortably from the cash accruals.

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, resulting in pressure on the liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

MEPL manufactures specialty 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, specialty chemicals and dye intermediates. In FY2022, MEPL bought additional shares from OG Corporation and at present holds 48.95% of MSCPL's shares.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	308.38	261.01
PAT	29.57	37.78
OPBDITA/OI	17.33%	13.13%
PAT/OI	9.59%	14.48%
Total outside liabilities/Tangible net worth (times)	0.22	0.16
Total debt/OPBDITA (times)	0.21	0.24
Interest coverage (times)	33.05	37.60

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

Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years						
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long Term	18.42	28-Jan-2025	[ICRA]A (Stable)	30-Oct-2023	[ICRA]A (Stable)	01-Nov-2022	[ICRA]A (Stable)	24-Nov-2021	[ICRA]A (Stable)
Pre-shipment and post-shipment credit	Short term	8.00	28-Jan-2025	[ICRA]A1	30-Oct-2023	[ICRA]A1	01-Nov-2022	[ICRA]A1	24-Nov-2021	[ICRA]A1
Letter of Credit	Short term	12.00	28-Jan-2025	[ICRA]A1	30-Oct-2023	[ICRA]A1	01-Nov-2022	[ICRA]A1	24-Nov-2021	[ICRA]A1
Bank guarantee	Short term	0.30	28-Jan-2025	[ICRA]A1	30-Oct-2023	[ICRA]A1	01-Nov-2022	[ICRA]A1	24-Nov-2021	[ICRA]A1

Instrument	Current (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
MTM limits	Short term	0.25	28-Jan-2025	[ICRA]A1	30-Oct-2023	[ICRA]A1	01-Nov-2022	[ICRA]A1	24-Nov-2021	[ICRA]A1
Fund-based and non-fund based*	Long term/short term	5.00	28-Jan-2025	[ICRA]A (Stable)/[ICRA]A1	30-Oct-2023	[ICRA]A (Stable)/[ICRA]A1	01-Nov-2022	[ICRA]A (Stable)/[ICRA]A1	24-Nov-2021	[ICRA]A (Stable)/[ICRA]A1
Unallocated amount	Long term/short term	36.03	28-Jan-2025	[ICRA]A (Stable)/[ICRA]A1	30-Oct-2023	[ICRA]A (Stable)/[ICRA]A1	01-Nov-2022	[ICRA]A (Stable)/[ICRA]A1	24-Nov-2021	[ICRA]A (Stable)/[ICRA]A1

Note - Amount in Rs. Crore; *Overdraft facility should not exceed Rs 5 crore; preshipment/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
Short-term - Fund-based Limits	Simple
Short-term – Non fund based Limits	Very Simple
Long-term- Fund based - Term Loan	Simple
Long-term/Short-term- Fund Based /Non-fund Based	Simple
Long-term/Short-term -Unallocated	Not Applicable

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	18.42	[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 limits	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	36.03	[ICRA]A (Stable)/ [ICRA]A1

Source: Company; *Overdraft facility should not exceed Rs 5 crore; preshipment/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

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 12 4454 5322

prashant.vasisht@icraindia.com

Ankit Jain

+91 12 4454 5865

ankit.jain@icraindia.com

Himani Sanghvi

+91 79 6923 3048

Himani.sanghvi@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

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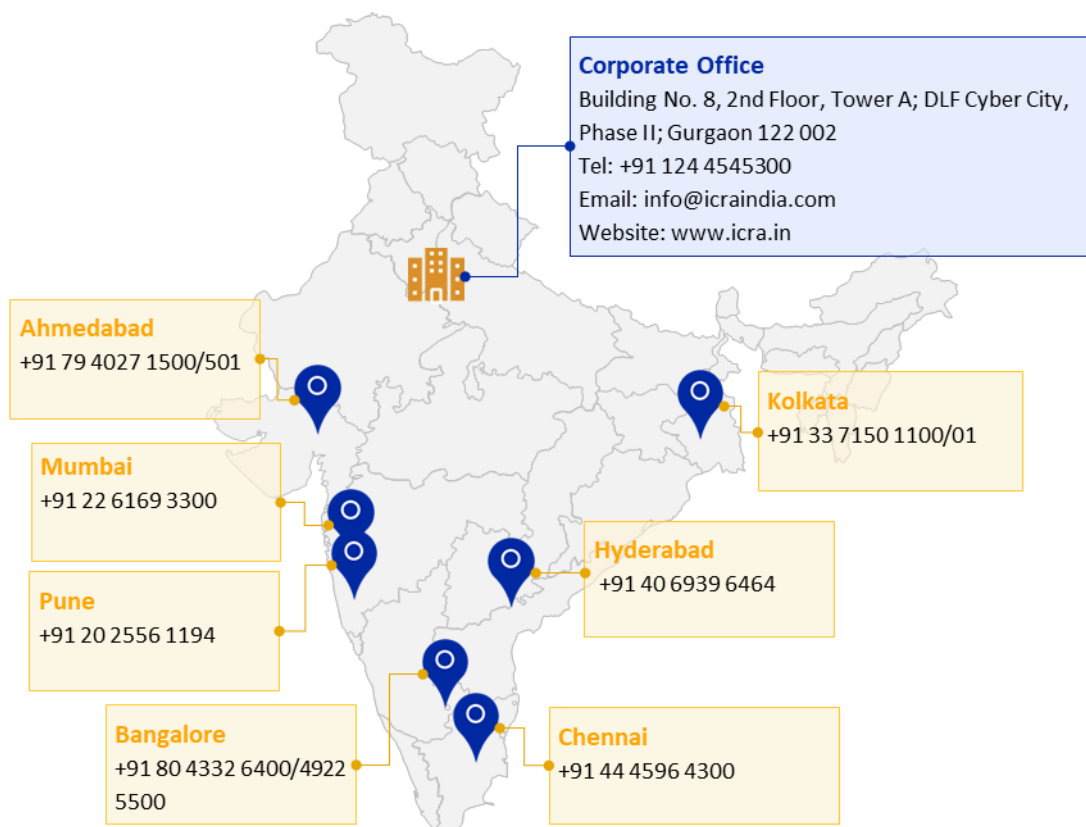


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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