

June 05, 2017

## Bhalla Chemical Works Private Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	4.40	[ICRA]B+ (Stable); assigned
Non-fund Based Limits	5.60	[ICRA]A4; assigned
<b>Total</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs 4.40-crore fund-based facilities of Bhalla Chemical Works Private Limited (BCWPL). ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs 5.60-crore of non-fund based facilities of BCWPL. The outlook on the long-term rating is ‘Stable’.

### Rationale

The assigned ratings are constrained by the decline in the production volumes over the last few years due to muted demand in the market as well as lower realisation, leading to decline in the operating income from Rs 22.70 crore in FY2013 to Rs 13.50 crore in FY2016. The ratings are also constrained by the high working capital intensity owing to high inventory necessitated by long transit and processing time. Furthermore, the company faces high competition from substitutes as well as imports and thus the profitability is expected to remain range bound. The ratings also factor in the vulnerability of profitability to adverse foreign exchange fluctuations due to the absence of a formal hedging policy and a weak financial profile characterised by low net margins and moderate coverage indicators.

The ratings, however, take comfort from the experience of the promoters spanning over four decades in the zircon industry and their long-term association with various customers, which yields repeat orders and provides revenue visibility. The ratings also positively factor in the continuous improvement in the operating margins of the company during the last three years despite the fluctuations in the raw material prices.

Going forward, the ability of the company to increase its sales volumes and pass on the increase in the raw material prices to the customers while improving its profitability will be the key rating sensitivity.

### Key rating drivers

#### Credit strengths

- Four decade long track record of promoters in the zircon industry
- Continuous improvement in the operating margins in the last three years despite fluctuations in raw material prices

**Credit weaknesses**

- Decline in the production volumes in FY2017 by 17% due to muted demand in the market as well as lower realisations
- High working capital intensity on account of long transit and processing time
- High competitive intensity due to imports from China and alternate chemicals; profitability expected to remain range bound due to high competition
- Vulnerability of profitability to adverse foreign exchange fluctuations due to the absence of a formal hedging policy
- Financial profile characterised by low net margins, moderate coverage indicators and modest working capital intensity

**Description of key rating drivers:**

BCWPL has an installed capacity of ~5100 MTPA of zircon sand spread across two manufacturing locations in Gurgaon. The capacity utilisation of the company has remained low in the last few years and declined to 14% in FY2017 (from 17% in FY2016). The decline in production was mainly on account of muted demand for zirconium carbonate due to stiff competition from cheaper substitutes from China.

Zircon sand is the key raw material for the company along with other raw materials such as hydrochloric acid and caustic soda. BCWPL either imports zircon sand directly or purchases the imported sand through traders. Due to the absence of a formal hedging policy, the profitability of the company remains dependent on adverse forex fluctuations; however, due to the presence of export sales, there exists a natural hedge to a certain extent.

The operating margins of the company have been increasing over the last four years and improved from 8.97% in FY2013 to 16.08% in FY2017. The working capital intensity remains high and stood at ~59% in FY2017. The conversion time of raw material to finished good is 20-25 days; hence, the company maintains a stock of raw material supply of three months to mitigate both the effect of price spikes and the lead time involved in inward transportation and handling.

**Analytical approach:** To arrive at the ratings, ICRA has taken into account the standalone financials along with key operational developments in the recent past

**Links to applicable criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

**About the company:**

Bhalla Chemical Works Pvt. Ltd. (BCWPL) was incorporated in 1976 and is involved in manufacturing zirconium speciality chemicals. BCWPL's products find applications in various fields such as engineering, ceramics, paints and anti prespirants. BCWPL's manufacturing plant in the Gurgaon region has an input capacity of 5100 MTPA. BCWPL is a closely held entity and members of the Bhalla family are the key stakeholders.

Before FY2012, the company was manufacturing only one product, zirconium silicate, which is used as an input for manufacturing ceramic glaze frits for tiles, sanitary ware etc. However, because of increase in competition in this business line, the company started manufacturing other speciality chemicals such as zirconium carbonate, which mainly find application in paints and anti-prespirants.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table**

S.No	Name of Instrument	Current Rating (FY2017)			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & Rating FY2018	Date & Rating FY2016	Date & Rating FY2015	Date & Rating FY2014
				June 2017	March 2016	July 2014	-
1	Cash Credit	Long-term	4.40	[ICRA]B+ (Stable)	[ICRA]B+; rating suspended	[ICRA]B+	-
2	Non Fund Based Limits	Short-term	5.60	[ICRA]A4	[ICRA]A4; rating suspended	[ICRA]A4	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance /Sanction</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	4.40	[ICRA]B+ (Stable)
Non Fund Based Limits	-	-	-	5.60	[ICRA]A4

Source: Bhalla Chemical Works Pvt Ltd



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**About ICRA Limited:**

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