

GANGA RASAYANIE PRIVATE LIMITED

July 30, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based/non-fund-based facilities	60.00	[ICRA]BBB (Stable); Assigned
Long-term/Short-term interchangeable*	(60.00)	[ICRA]BBB (Stable)/ [ICRA]A3+; Assigned
Long-term/Short-term unallocated limits	70.00	[ICRA]BBB (Stable)/[ICRA]A3+; Assigned
Total	130.00	

**Long-term/Short-term interchangeable limits are sub-limits of Long-term fund-based/non-fund-based facilities*

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) for the Rs. 60.00-crore¹ fund-based and non-fund based bank limits of Ganga Rasayanie Private Limited (GRPL)². ICRA has also assigned the long-term and short-term ratings of [ICRA]BBB and [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 60.00-crore long-term and short-term interchangeable limits and Rs. 70.00-crore long-term/short-term unallocated limits of the company. The long-term/short-term interchangeable limits are sub-limits of long-term fund-based and non-fund based limits. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings consider the long experience of the promoters in the solvent industry with presence of over three decades and GRPL's established relationship with its diversified customers across industries like paints, agro-chemical, oil-feed chemical and adhesives among others. The assigned ratings also draw comfort from the healthy financial risk profile of the company, characterised by improved profitability, conservative capital structure and comfortable debt coverage indicators.

The ratings are, however, constrained by the risk associated with timely completion and stabilisation of the expansion project within the expected project cost without any significant cost or time overrun. The ratings also take into account the vulnerability of GRPL's profitability to fluctuations in prices of key raw materials, which are crude oil derivatives, and its susceptibility to forex risks owing to significant imports. ICRA also notes that rising crude oil prices is likely to result in higher working capital requirement of all major players in the industry, including GRPL. While the working capital intensity of operations remains moderate at present, any significant increase in the same would have an adverse impact the liquidity of the company. Nonetheless, ICRA notes that GRPL has cushion in the sanctioned fund-based limits to meet the incremental requirement to a large extent.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA rating publications

Outlook: Stable

ICRA believes that GRPL will continue to benefit from the extensive experience of its promoters in aromatic and aliphatic solvent industries. While, the operations of the company are expected to improve from H2 FY2020 with commencement of operations at the new facility in Dahej, the timely completion of the project along with stabilisation of operations at the facility would remain crucial for GRPL's future performance. The outlook may be revised to Positive if substantial growth in revenue and profitability on account of effective utilisation of the capacity addition strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected or if deterioration in working-capital cycle, results in liquidity stretch.

Key rating drivers

Credit strengths

Significant experience of the promoters in the solvent industry – The promoters of the company have an experience of more than three decades in the solvent industry. Established relationship with key intermediaries and end-customers reduces the off-take risks to an extent.

Diversified customer profile with presence in various industry segments across geographies – GRPL's revenues are derived from a mix of domestic (~60% of total sales in FY2018) and export sales (~40% of total sales in FY2018) to its customers in different regions of India, Saudi Arabia, the UAE, the UK, the US and Australia. The company also has a well-diversified customer portfolio with its top-10 customers accounting for around 33% of total sales during FY2017. Further, presence of the customers in various industries like paints, agro-chemical, oil-feed chemical and adhesives helps the company adapt to changing market conditions and mitigate sector-specific risks to an extent.

Healthy financial risk profile of the company – GRPL's financial risk profile remains healthy, with improvement in profitability during the last few years, conservative gearing of 0.46 times and comfortable debt-coverage indicators, as reflected by TD/OPBDITA of 1.35 times and interest cover of 14.10 times during FY2017. ICRA notes that the planned capital expenditure of the company is likely to result in deterioration in capital structure and debt coverage indicators going forward but the same are likely to remain comfortable.

Credit challenges

Risk associated with successful completion and stabilisation of operations at the new facility – GRPL has undertaken an expansion project in Dahej for installation of an annual solvent processing capacity of 200,000 MT and an annual storage capacity of 20,000 MT. The estimated cost of the project is Rs. 80 crore, which is likely to be funded by a mix of external debt and internal accruals in equal portion. The project is expected to commence operations from FY2020. ICRA notes that financial closure for the project has not yet been achieved as debt tie-up for the project is still under process. Further, timely commissioning of operations without any significant cost overruns would remain a key rating sensitivity.

Vulnerability of revenues and margins to adverse fluctuations in raw material prices and foreign exchange rates – Since raw material costs account for over 75% of the company's operating income, GRPL's ability to procure raw materials at a competitive price is important to maintain cost competition as raw material prices vary directly with the movement of crude oil prices. Although the company has entered into long-term contracts with some of its suppliers to reduce its overall cost of raw materials, GRPL continues to remain susceptible to unprecedented movement in crude oil prices. GRPL also remains exposed to foreign currency fluctuation risks since around 50% of the company's raw materials are imported, however, simultaneous exports of around 40% of total sales, mitigates the risk to an extent. Nonetheless, absence of a formal hedging mechanism exposes the company to risks associated with adverse fluctuations in foreign currency rates.

Rising crude oil prices likely to increase the working capital requirement – GRPL’s working capital intensity of operation increased from 18% during FY2016 to 25% during FY2017 because of increase in credit period offered to some of the large customers and higher year-end inventory levels. ICRA also notes that rising crude oil prices is likely to result in higher working capital requirement of all major players in the industry, including GRPL. While the working capital intensity of operations remains moderate at present, any significant increase in the same would have an adverse impact the liquidity of the company. Nonetheless, ICRA notes that GRPL has cushion in the sanctioned fund-based limits to meet the incremental requirement to a large extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Ganga Rasayanie Private Limited (GRPL), incorporated in 1977, is involved in the business of downstream refining of heavy para-xylene products to produce aromatic compounds used in paints, coatings, printing inks, varnish, adhesives, oil-feed chemical and agro-chemical industries including insecticides and pesticides. These are produced through refining, fractional distillation, purification and blending of heavy aromatic oils. The company also manufactures aliphatic solvents, however, the proportion of the same in the total products sold remains low. The company has two manufacturing facilities, one each in Ankleshwar (Gujarat) and Panamgadu (Andhra Pradesh) with an installed capacity of 70,000 MTPA and 10,000 MTPA, respectively. The company is also undertaking an expansion project to set up a new facility in Dahej, Gujarat with an installed processing capacity of 200,000 MTPA and an installed storage capacity of 20,000 MTPA.

Key financial indicators

	FY 2016	FY 2017	FY2018 (Prov)
Operating Income (Rs. crore)	155.93	211.37	200.91
PAT (Rs. crore)	4.37	9.70	10.10
OPBDIT/ OI (%)	5.50%	7.53%	8.22%
RoCE (%)	15.96%	28.05%	22.04%
Total Debt/ TNW (times)	0.26	0.46	0.45
Total Debt/ OPBDIT (times)	1.11	1.35	1.57
Interest coverage (times)	5.93	14.10	14.52

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Long-term fund-based/non-fund-based	60.00	-	[ICRA]BBB (Stable)	-	-	-
2	Long-term/short-term interchangeable	(60.00)	-	[ICRA]BBB (Stable) / [ICRA]A3+	-	-	-
3	Unallocated limits	70.00	-	[ICRA]BBB (Stable) / [ICRA]A3+	-	-	-

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund based/non-fund-based	-	NA	-	60.00	[ICRA]BBB (Stable)
NA	Long-term/Short-term interchangeable	-	NA	-	(60.00)	[ICRA]BBB (Stable)/[ICRA]A3+
NA	Long-term/Short-term unallocated limits	-	NA	-	70.00	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Ganga Rasayanie Private Limited

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