

Avani Petrochem Private Limited

August 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	50.60	50.60	[ICRA]BB- (Stable); Revised from [ICRA]BB and removed from issuer-not-cooperating category
Non-fund based limits# (35.60)		(35.60)	[ICRA]A4; Reaffirmed and removed from issuer-not-cooperating category
Total	50.60	50.60	

*Instrument details are provided in Annexure-1

sub-limit of fund-based limits

Rating action

ICRA has revised the long-term rating assigned to the Rs. 50.60-crore long-term fund-based facilities of Avani Petrochem Private Limited (APPL) to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB (pronounced ICRA double B). The outlook on the long-term rating is Stable. ICRA has reaffirmed the short-term rating at [ICRA]A4 (pronounced ICRA A four) assigned to APPL. Also, the ratings are removed from the 'Issuer not cooperating' category.

Rationale

The revision in the long-term rating reflects the moderation in the company's profitability as well as the stretched liquidity profile as evident from the increase in creditor days to 174 days in FY2018 from 120 days in FY2016. Further, the ratings also factor in the significant exposure in unrelated real estate business and the moderation in coverage indicators. The ratings also remain constrained by the competitive pressure from imports. Moreover, the company's operations are vulnerable to volatility in crude oil prices as its end products are subjected to quarterly price revisions, whereas the raw material prices move in line with the crude oil prices. Additionally, the company is also exposed to adverse currency fluctuations though the same remains mitigated to the extent of hedging undertaken by the company.

The ratings, however, positively considers the long operating track record of APPL in the petrochemical industry; the company's strong competitive position among the few manufacturers of de-aromatized hydrocarbon solvents in India; and its well-established relationship with reputed clientele across diverse end-user segments.

Outlook: Stable

ICRA expects APPL to continue to benefit from the extensive experience of its promoters and the stable demand for mosquito repellent. The outlook may be revised to Positive if significant increase in sales and profitability improves the liquidity profile and strengthens the financial profile. Further, favourable outcome of the disputed investment and the receipt of funds may ease up liquidity, consequently resulting in a Positive outlook. The outlook may be revised to Negative if any decline in profitability and cash accruals further stretches the liquidity. Any further increase in investments in real estate ventures or any delay in subsequent receipt of investments will also lead to Negative outlook.

Key rating drivers

Credit strengths

Established track record of APPL and its promoters in petrochemical industry - APPL's promoters have more than three decades of experience in the petrochemical industry. The promoters entered the petrochemicals industry as an oil dealer and subsequently established APPL in 1980.

Reputed client base with diverse end-user industry – APPL manufactures hydrocarbon solvents, which are the base products/ intermediates for several industries including mosquito repellent, polymer, rubber, aluminium, lubricant, paints and ink industry. APPL has an established relationship with its reputed customer base; Godrej Consumer Products Limited is the largest customer of the company and constituted ~30-35% of APPL's operating income in the last two fiscals. Thus, the strong credit profile of customers results in low counterparty risks.

Credit challenges

Moderation in financial profile with decline in profitability and coverage indicators - Though the company's operating income grew by ~35% in FY2018, operating margins declined to 3.5% in FY2018 from 5.6% in FY2017 because of the higher raw material prices, which the company was unable to fully pass to end customers. The coverage indicators remained modest with interest coverage of 1.5 times and debt-service coverage ratio of 1.4 times in FY2018.

Stretched liquidity profile – APPL's working capital limits remained fully utilised over the last fifteen months. Its creditors also remained stretched—the creditor days were 173 days as on March 2018-end against 120 days as on March 2017. ICRA also notes that against the impending repayment of Rs. ~2.8 crore, APPL's cash accruals are Rs. 2.3 crore. This shortfall might intensify the liquidity pressure and hence timely support from promoters remains critical.

Increasing exposure to real estate business through joint ventures (JV) - APPL has entered into a JV (partnership firm named Avani Infrastructure for acquiring a sick industrial unit in Baroda which is under legal dispute. Hence, the promoters have not been able to liquidate their investments, resulting in a stretched liquidity position for APPL. Further, advances to Avani Infrastructure have increased over the years; and with the matter being currently sub-judice, the likelihood of sale proceeds from the land assets and reduction in advances remains uncertain in the near term. The receipt of these advances remains critical from the cash flow perspective for APPL.

Profitability vulnerable to raw material price fluctuations as well as foreign exchange fluctuations - The major raw material for APPL is de-aromatised aliphatic oil, which is a crude oil derivative and the price of which has exhibited large volatility in the recent past. However, the risk is partly mitigated by the presence of a quarterly price revision clause with most of the customers. Further, as the key raw material is entirely imported, the profit margins remain indirectly exposed to foreign exchange price movements as the company does not have any formal hedging policy.

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:

Avani Petrochem Private Limited (APPL) was established in 1980 by Mr. Dipak Shah. The company uses fractional distillation process to manufacture petroleum speciality products, mainly de-aromatized hydrocarbon solvents and oils for polymers, mosquito repellents, paints, ink and aluminium industry. The company has its distillation towers in Halol,

Vadodara, with capacity of 16000 kilo litres per annum. Mr. Dipak Shah also promotes another firm, Avani Infrastructure (APPL has 40% stake in it), which is engaged in real estate business

The company recorded a net profit of Rs. 1.9 crore on an OI of Rs. 81.2 crore in FY2018, on a provisional basis, as against a net profit of Rs. 1.9 crore on an OI of Rs. 65.8 crore in FY2017.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	68.2	65.8
PAT (Rs. crore)	1.1	1.9
OPBDIT/ OI (%)	3.0%	5.6%
RoCE (%)	10.3%	13.5%
Total Debt/ TNW (times)	1.4	1.4
Total Debt/ OPBDIT (times)	19.3	11.4
Interest Coverage (times)	1.3	1.5

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
Instrument	Type	Amount	Amount	Date & Rating August 2018	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	
		(Rs. crore)	Outstanding (Rs. crore)		March 2018	November 2017			
1	Cash Credit	Long Term	35.60	-	[ICRA]BB-(Stable)	[ICRA]BB (Stable) [#]	[ICRA]BB (Stable) [@]	[ICRA]BB (Stable)	-
2	Corporate Loan	Long Term	15.00	-	[ICRA]BB-(Stable)	[ICRA]BB (Stable) [#]	[ICRA]BB (Stable) [@]	[ICRA]BB (Stable)	-
3	Letter of Credit/Buyers Credit*	Short term	(35.60)	-	[ICRA]A4	[ICRA]A4 [#]	[ICRA]A4 [@]	[ICRA]A4	-

* sub-limits of Cash Credit; # Issuer-not-cooperating; @ Issuer-not-cooperating based on non-submission of NDS for two consecutive months

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	Cash Credit	NA	NA	NA	35.60	[ICRA]BB- (Stable)
NA	Corporate Loan		NA		15.00	[ICRA]BB- (Stable)
NA	Letter of Credit/Buyers Credit*	NA	NA	NA	(35.60)	[ICRA]A4

* sub-limits of Cash Credit

Source: Avani Petrochem Private Limited

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