

Champion Commercial Company Limited

January 07, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	10.00	20.00	[ICRA]BBB-(Stable); reaffirmed
Short-term, Fund-based Limits	4.50	0.00	-
Short-term, Non-fund Based Limits	7.00	5.00	[ICRA]A3; reaffirmed
Short-term, Interchangeable Limits	8.00	20.00*	[ICRA]A3; reaffirmed
Long-term and Short-term, Unallocated Limit	3.50	0.00	-
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers the strong revenue growth of Champion Commercial Company Limited (CCCL) in FY2018 and H1 FY2019, its comfortable capitalisation and coverage indicators, as well as liquid investments of Rs. 12.13 crore as on March 31, 2018. The ratings factor in the extensive experience of the promoters in the trading of speciality chemicals. Furthermore, the ratings consider CCCL's exclusive dealership and established relationships with global chemical manufacturers, and its wide customer base from multiple industries.

The ratings, however, are constrained by CCCL's moderate scale of operations and high working capital intensity. The ratings also factor in the vulnerability of cash flows and profits to adverse fluctuations in the currency market and chemical prices. Additionally, the company faces intense competition from distributors of other global manufacturers.

Outlook: Stable

ICRA expects CCCL to continue to benefit from the extensive experience of its management and established relationships with its suppliers. The outlook may be revised to Positive if the company is able to sustain its revenue growth and profit margin while effectively managing its working capital requirements. The outlook may be revised to Negative if cash accrual is lower than expected, or if any further stretch in the working capital cycle, weakens the liquidity position of the company.

Key rating drivers

Credit strengths

Financial profile characterised by strong revenue growth, comfortable capitalisation and coverage indicators as well as liquid investments - CCCL reported an annual OI growth of 34% to Rs. 84.81 crore in FY2018 from Rs. 63.24 crore in FY2017 on the back of improving demand and sales volume. The operating income stood at Rs.64.85 crore in H1 FY2019 following an improvement in average sales realisation during the period. The company's capitalisation and coverage indicators stood healthy in H1FY2019 and FY2018 due to improved accruals. The gearing stood at 0.41 time as on September 30, 2018 (0.29 time as on March 31, 2018). The operating profit/interest ratio stood at 6.53 times (4.57 times in FY2018) in H1 FY2019. ICRA also notes that the company's liquid investments stood at Rs. 12.13 crore as on March 31, 2018.

Extensive experience of the management ensures established relationships with reputed chemical manufacturers and exclusive dealerships – CCCL’s promoters have over three decades of experience in the chemical sector. The company has been associated with global players such as the BASF Group and WR Grace & Co. since 1995, and it is an exclusive distributor for certain product categories across western and southern India.

Diversified customer base and product portfolio catering to multiple industries - CCCL’s product portfolio is largely dominated by different grades of syloid, irganox and acronal that find application in various industries such as plastic, paints, coating, textiles, pharmaceuticals and construction. This enables the company to alter its sales mix as per market demand indicators, reducing its dependence on a single product or industry. CCCL’s customer base has remained highly diversified with its top 10 customers driving 15-25% of its total revenues over the past three years.

Credit challenges

Moderate scale of operations; however, strong revenue growth reported in FY2018 and H1 FY2019 - CCCL’s revenues have been fluctuating over the past five years due to change in demand-supply indicators in the domestic and global markets. The company’s scale of operations has remained moderate during the period under review, however, it reported healthy revenue growth in FY2018 and H1 FY2019, when its operating income stood at Rs. 84.81 crore and Rs. 64.85 crore for the periods, respectively.

High working capital intensity – CCCL’s net working capital intensity has remained high at 20% during past three years. While the debtors reduced from 102 days in FY2018 to 76 days in H1 FY2019 owing to faster realisation of bills, the net working capital intensity continued to remain at ~20% in H1 FY2019 due to moderation in creditor days.

Vulnerability of cash flows and profits to adverse fluctuations in the currency market and chemical prices – CCCL sources its products from European markets, China and the US, while its sales are entirely driven by the domestic market. Thus, its profitability is exposed to movements in the foreign exchange market. Additionally, the margins are susceptible to price risks from fluctuations in chemical prices and inventory maintained by the company.

Intense competition from distributors of other global chemical manufacturers – Although CCCL’s exclusive distributorship for some of its products entails ready acceptability among its customers, it faces competition from distributors of other global manufacturers offering substitute products and different product grades. Due to the trading nature of its operations, the entry barriers remain low, resulting in high competition and consequently limited pricing flexibility.

Liquidity Position:

CCCL’s liquidity position has remained healthy following prudent working capital management and lack of any significant capex over the past four fiscals. The company does not have significant long-term loans on its balance sheet, other than vehicle loan (Rs. 1.07 crore as on March 2018) and property loan (Rs. 2.00 crore availed in November 2018). ICRA notes that the average utilisation of fund based limits have stood at 64% during past one year. Additionally, the company had liquid investment in quoted equity of Rs. 12.13 crore as on March 31, 2018, which can be liquidated, if required.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone

About the company:

Incorporated in 1982, CCCL imports and distributes speciality chemicals in the domestic market. The company is the distributor for reputed chemical manufacturers across the globe. It primarily serves the plastics, coating, construction, textiles, and pharmaceutical industries. Its offices are located at Mumbai, Kolkata and Ahmedabad (Gujarat). The company has adequate warehouse facilities at Kolkata and Bhiwandi (Maharashtra).

CCCL recorded a net profit of Rs. 2.68 crore on an operating income of Rs. 84.81 crore in FY2018 compared to a net profit of Rs. 1.56 crore on an OI of Rs. 63.24 crore in FY2017. As per provisional results, the company has recorded net profit of Rs. 2.46 crore on an operating income of Rs. 64.85 crore in the first six months of FY2019.

Key financial indicators

	FY2017	FY2018	6MFY2019
	Audited	Audited	Provisional
Operating Income (Rs. crore)	63.24	84.81	64.85
PAT (Rs. crore)	1.56	2.68	2.46
OPBDIT/ OI (%)	4.69%	5.79%	6.42%
RoCE (%)	9.92%	11.99%	-
Total Debt/ TNW (times)	0.40	0.29	0.41
Total Debt/ OPBDIT (times)	4.35	2.23	1.93
Interest coverage (times)	1.80	4.57	6.53

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)	Chronology of Rating History for the past 3 years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore) March 2018	Date & Rating January 2019	September 2018	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 March 2016
1 Cash Credit	Long-term	20.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)
2 Letter of Credit	Short-term	5.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A3
3 Bank Guarantee**	Short-term	(3.50)	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A3
4 Working Capital Demand Loan*	Short-term	(20.00)	-	[ICRA]A3	-	-	-	-
5 Letter of Credit 2*	Short-term	(4.50)	-	[ICRA]A3	-	-	-	-
6 Working Capital in Foreign Currency*	Short-term	(20.00)	-	[ICRA]A3	-	-	-	-
7 One-time short-term Limit*	Short-term	(20.00)	-	[ICRA]A3	-	-	-	-

*Sublimit of Cash Credit

**Sublimit of Letter of Credit

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
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NA	Cash Credit	-	-	-	20.00	[ICRA]BBB-(Stable)
NA	Letter of Credit	-	-	-	5.00	[ICRA]A3
NA	Bank Guarantee**	-	-	-	(3.50)	[ICRA]A3
NA	Working Capital Demand Loan*	-	-	-	(20.00)	[ICRA]A3
NA	Letter of Credit 2*	-	-	-	(4.50)	[ICRA]A3
NA	Working Capital in Foreign Currency*	-	-	-	(20.00)	[ICRA]A3
NA	One-term short-term Limit*	-	-	-	(20.00)	[ICRA]A3

*Sublimit of Cash Credit

**Sublimit of Letter of Credit

Source: Champion Commercial Company Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Rupa Pandey

+91 22 6114 3456

rupa.pandey@icraindia.com

Pragya Sharma

+91 22 6114 3454

pragya.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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