February 26, 2020

Haresh Overseas Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	5.00	5.00	[ICRA]B- (Stable); reaffirmed
Fund Based – Term Loan	0.92	0.92	[ICRA]B- (Stable); reaffirmed
Non-fund based - Letter of Credit	34.37	34.37	[ICRA]A4; reaffirmed
Total	**40.29**	**40.29**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation notes Haresh Overseas Private Limited's (HOPL) weak financial profile with a leveraged capital structure due to eroded net worth base, given the accumulated past losses and high dependence on creditor funding leading to a high total outside liabilities to net worth ratio (TOL/TNW). Furthermore, the ratings remain constrained by the company's weak profitability on account of low value-added nature of trading operations resulting in weak coverage indicators. The profits are further susceptible to volatility in crude oil prices, foreign exchange fluctuations as the entire traded goods are procured from overseas. ICRA considers the intense competition in the petrochemical trading industry owing to the presence of several organised as well as unorganised players, which limits the pricing flexibility.

However, ICRA draws comfort from the extensive experience of the promoters in the chemical trading business and the company's diversified customer base including a large paint manufacturer, which helps in maintaining moderate scale of business. However, ICRA notes HOPL's revenue degrowth in FY2019 and 9M FY2020 due to decreased demand of petrochemicals.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter and Group companies in trading of petrochemicals and speciality chemicals – HOPL's promoters have been in the petrochemical and speciality chemical industry for more than three decades. The extensive experience and expertise of the promoters and the Group companies helped the company in maintaining a longstanding relationship with established overseas suppliers and ensuring repeat orders from customers.

Moderate operating scale with large paint manufacturer in customer profile despite decline in revenue in FY2019 and 9M FY2020 – With an operating income (OI) of Rs. 162.5 crore recorded in FY2019, HOPL has a moderate size of business. The company has a large customer base with regular orders from a large paint manufacturer. However, due to overall slowdown in petrochemical trading industry, the revenue decreased to Rs. 162.5 crore in FY2019 from Rs. 177.4 crore in the previous year resulting in 8.4% degrowth. The same continued in the current year with Rs. 73.8-crore revenue booked in 9M FY2020, reporting an annualised degrowth of 39%.

Credit challenges

Leveraged capital structure due to erosion of net worth from accumulated losses – Significant losses incurred in the past (FY2014 – FY2016) had eroded the company's net-worth base, which led to an adverse gearing of 6.0 times. Further high reliance on creditor funding resulted in high outside liabilities as represented by TOL/TNW of 73.5 times as on March 31, 2019. However, with negative working capital intensity due to increased creditors funding, HOPL's reliance on working capital borrowings sharply reduced in FY2019.

Weak profitability levels due to low value-added nature of business, resultant weak debt and coverage metrics – The low value-added nature of trading business restricts its profitability with operating profit margin of 1.5% in FY2019. Low operating profitability resulted in weak coverage indicators with Total Debt/OPBDITA of 2.3 times and DSCR of 1.3 times as on March 31, 2019.

Profitability and stocked inventory exposed to volatility in crude oil prices – The company holds an inventory of two months on an average. The stocked inventory prices and its profit margins remain vulnerable to commodity price cycles, with HOPL trading in commodity chemicals. The prices primarily move in line with the international demand and supply scenario and are subject to considerable volatility, depending on crude oil price movements. The margins remain vulnerable to import duty levels.

Vulnerability to foreign currency fluctuation with 100% dependence on imports and absence of active hedging policy – The chemicals HOPL trades in are imported from across the globe, primarily from Saudi Arabia, Thailand, directly from the manufacturers and in some cases from the traders. However, the exports form a minor portion of the total sales, thus exposing the company to foreign currency fluctuation risk in absence of any natural hedge. However, partial forward hedging mitigates the risk to some extent.

Intense competition in fragmented trading business – The chemical trading business is characterised by stiff competition with a large number of companies in the organised as well as unorganised sector. The intense competition faced by HOPL limits the pricing flexibility of the company.

Liquidity position: Poor

HOPL's liquidity is **poor** with low net cash accruals and fund flow from operations due to marginal profit margins. Further, the non-fund based working capital limits remain fully utilised in the past 12 months ending in January 2020. ICRA expects the liquidity to remain poor due to lower cash accruals due to the anticipated decreased scale of operations in the current year. HOPL's fund flow from operations (FFO) decreased in FY2019 to Rs. 1.5 crore from Rs. 2.5 crore in FY2018 on account of lower profitability.

HOPL had external working capital term loan of Rs. 1.8 crore on its books as on March 31, 2019, of which Rs. 0.2 crore is scheduled to be repaid in the current year, which is scheduled to be fully repaid by FY2029. The repayment burden is expected to remain low in the years ahead as the company doesn't have any major capacity expansion plans.

Rating sensitivities

Positive triggers – ICRA could upgrade HOPL's ratings if the company demonstrates a continual growth in its OI, along with improved profitability, thereby improving the net worth and the liquidity position on a sustained basis.

Negative triggers – Negative pressure on HOPL's ratings could arise if considerably lower sales realisations and sales volumes lead to revenue degrowth and reduced profitability, resulting in further weakening of the company's liquidity profile and deterioration of capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology For Trading Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

HOPL was incorporated in 1983 and is at present managed by Mr. Kailash S. Kasat. The company is headquartered in Mumbai (Maharashtra) with branch offices in Cochin (Kerala), Gandhidham (Gujarat) and Jodhpur (Rajasthan). It is involved in trading, marketing and distribution of petrochemicals and solvent. The company is a manufacturer and supplier of guar gum powder and has a state-of-the art manufacturing unit of 4,500-MTPA capacity with an in-house laboratory at Boronada Agro Park Jodhpur (Rajasthan), which started production in 2006. However, its revenue from the guar gum factory forms a minute part of the total revenue. The company is a part of Haresh Group, which includes Kailash & Company, Haresh Petrochem Private Limited and Mahi Integrated Logistics. Kailash & Company provides services such as storing, clearing and survey of solvents and chemicals imported in bulk. Haresh Petrochem Private Limited is a global supplier for solvents and petrochemicals and Mahi Integrated Logistics provides services for storage, survey, custom clearance and transportation of goods for its customers.

In FY2019, the company reported a net profit of Rs. 0.2 crore on an OI of Rs. 162.5 crore, compared to a net profit of Rs. 4.2 crore on an OI of Rs. 177.4 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	177.4	162.5
PAT (Rs. crore)	4.2	0.2
OPBDIT/OI (%)	2.5%	1.5%
RoCE (%)	107.7%	13.5%
Total Debt/ TNW (times)	11.9	6.0
Total Debt/OPBDIT (times)	2.0	2.3
Interest Coverage (times)	4.3	2.6

Source: ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding As on 31-Jan-2020	Rating		FY2019	FY2018	FY2017
					26-Feb-2020	13-May-2019	-	21-Mar-2018	31-Jan-2017
1	Cash Credit	Long Term	5.00	1.7	**[ICRA]B- (Stable)**	**[ICRA]B- (Stable)**	-	**[ICRA]C+**	**[ICRA]C**
2	Term Loan	Long Term	0.92	-	**[ICRA]B- (Stable)**	**[ICRA]B- (Stable)**	-	**[ICRA]C+**	**[ICRA]C**
3	Letter of Credit	Short Term	34.37		**[ICRA]A4**	**[ICRA]A4**	-	**[ICRA]A4**	**[ICRA]A4**

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]B- (Stable)
NA	Term Loan	Sep 2017	11.40%	Jul 2028	0.92	[ICRA]B- (Stable)
NA	Letter of Credit	NA	NA	NA	34.37	[ICRA]A4

Source: Haresh Overseas Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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