

Matangi Industries LLP

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	113.64	CARE BBB+; Negative	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	44.50	CARE BBB+; Negative / CARE A2	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Matangi Industries LLP (MIL) continue to derive strength from long standing experience of partners in the chemical industry, its moderate scale of operations along with diversified clientele and product offerings as well as ability to undertake custom synthesis of products for niche applications. The ratings are also underpinned by its moderate capital structure along with comfortable debt coverage indicators.

The ratings are, however, constrained by its moderate profitability which is susceptible to raw material price volatility as well as foreign exchange fluctuation, partnership nature of constitution and its presence in an industry with strict compliance required to pollution control norms.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in its scale of operations with total operating income (TOI) of more than Rs.500 crore and tangible net worth greater than Rs.200 crore along with earning PBILDT margin of 15% on a sustained basis
- Improvement in capital structure with overall gearing below 0.50 times on sustained basis

Negative factors

- Decline in scale of operations below Rs.300 crore or PBILDT margin below 7% on sustained basis
- Significant withdrawal of capital or any increased reliance on debt resulting in overall gearing above 1.3x on sustained basis along with deterioration in debt coverage indicators
- Any tightening of prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain major products thereby significantly impacting its business and profitability

Analytical approach: Standalone

Outlook: Negative

The outlook assigned to the bank facilities of MIL has been revised from 'Stable' to 'Negative' on account of expectation of subdued profitability in FY24 on the back of volatile raw material prices and challenging industry environment resulting in deterioration in its debt coverage indicators. The outlook maybe revised to 'Stable' if the firm registers better profitability than 7MFY24 levels resulting in continued comfortable debt coverage indicators.

Detailed description of the key rating drivers:

Key strengths

Experienced partners

Mr Ruchit Jani, the designated partner of MIL, has done his M. Sc. in Chemical Engineering from Brunel University, London and has been instrumental in the growth of the firm since he joined the firm in 2007. He looks after overall business operations. Under his leadership, the firm had initiated performance chemical division (POC) division and its total operating income (TOI) has been growing continuously. Apart from Mr. Jani and his family members who own 50% stake in the firm, balance 50% stake in the firm is held by the promoters / relatives of Meghmani group, one of the leading players in chemical industry in India.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified customer base and product offerings with ability to undertake custom synthesis of products for niche application

MIL has a portfolio of 200+ products and is exporting to over 40 countries; whereby top 10 customers contributed ~59% of TOI in FY23 which include reputed chemical companies. Apart from manufacturing POC, Vinyl Sulphone (VS) and its derivatives, the firm is also engaged in custom synthesis wherein it has capabilities in conducting different chemical reactions to provide tailored products to meet specific requirements of customers. The firm enters into non-disclosure agreement with the companies for new product development as per their requirements which helps MIL to cater to niche demand from customers and helps the customers to develop new product and conduct pilot testing for new products thus reducing go-to-market time. Its products find application in various processes across diverse industries such as textiles, personal & home care, agrochemicals, paints & pigments, lube additives, food additives and oil & gas thereby allowing firm to cater to a diversified customer base and thus help it to counter slowdown in any industry or region. In personal care segment, which is the highest contributing segment, MIL's products are used by its customers to manufacture products like shampoos, creams, hand washes, etc.

Moderate scale of operations

During FY23, MIL's TOI registered healthy y-o-y growth of 22% and stood at Rs.409.93 crore (Rs.335.65 crore in FY22). Furthermore, in 7MFY24 as well, MIL registered sales of around Rs.253 crore. The growth was due to increase in sales volume mainly from the performance chemical division. MIL has shifted focus on performance chemicals (POC) from dye intermediates and thereby share of dyes intermediates has reduced over the period.

Moderate capital structure with comfortable debt coverage indicators

MIL had a moderate capital structure with overall gearing of 0.94x as on March 31, 2023 (1.01x as on March 31, 2022). This was on a moderate networth base of Rs.84.73 crore as on FY23 end. MIL's debt coverage indicators continued to remain comfortable in FY23 with PBILDT interest coverage of 7.99x (11.54x in FY22) and Total Debt/GCA of 2.99x (3.23x in FY22). Moderation in interest coverage was on the back of higher interest cost incurred during the period on the back of higher reliance on working capital borrowings.

Key weaknesses**Moderate profitability which is susceptible to volatility in raw material prices & foreign exchange fluctuation**

MIL had moderate profitability marked by PBILDT margin of 9.25% in FY23 against 10.13% in FY22. Marginal moderation was mainly due to volatility in raw material prices which could not be passed on to the customers. PBILDT margin moderated to around 5% in 7MFY24 on the back of continued volatility in raw material prices as well as challenging industry environment exerting pressure on profitability.

The key raw materials used by MIL are derivatives of crude oil. The price of crude oil is affected by factors like global demand, global production, geopolitical factors, and government regulations and hence it tends to remain highly volatile. Any sharp volatility in crude oil price can have an impact on the firm's profitability due to presence in competitive industry wherein pricing power is limited. Furthermore, MIL procures a certain portion of its raw materials through imports. During FY23, against its imports MIL has made exports of around Rs.208 crore, thus providing a natural hedge to its foreign currency exposure to certain extent. In absence of any formal hedging policy, for balance exposure, any sudden change in exchange rates can have an impact on its profitability.

Partnership nature of constitution

Being a partnership firm, MIL is susceptible to risk associated with withdrawal/ transfer of capital by the partners which may lead to deterioration in the firm's capital structure. However, there has been no instance of capital withdrawal in last three years.

Stricter regulatory landscape pertaining to pollution control norms

There is stringent pollution control regulation laid down for chemical processing units under the Gujarat Pollution Control Board (GPCB) norms. The company during its production process generates polluted water and air that needs to be treated before their disposal. However, the company has been complying with the required pollution control norms. MIL is a member of Common Effluent Treatment Plant (CETP) wherein it can discharge treated effluent of 150KL/ day, a member of NOVEL Spent Acid Management facility (NSAM) where it can dispose 1200 MT/ month of industrial waste and a member of other common spray drying facilities with discharge facility of 60KL/ day. Also, the firm has spent acid neutralization facility of 100KL/ day for converting hazardous waste into Gypsum and selling it to cement industry apart from spray drying facility of 100 KL/ day for highly concentrated effluent. Although, the firm has been complying with the required pollution control norms, any non-compliance or change in norms may have an impact on the operations of the firm.

Liquidity: Adequate

MIL had adequate liquidity with moderate utilization of working capital limits, positive cash flow from operations of Rs.14 crore, sufficient cushion in cash accruals to meet term debt obligation and a moderate operating cycle.

Average utilization of working capital limits remained moderate at 63% for the trailing twelve months ended October 2023. Also, operating cycle remained largely stable at 40 days in FY23. The firm is comfortably placed to service its principal term debt repayment and has sufficient cushion in its cash accruals vis-à-vis repayment obligations. Against expected cash accruals of Rs.26-36 crore, term debt obligations are in the range of Rs.7-11 crore.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Incorporated in 1993, Matangi Industries LLP (LID - AAC-8572) is a limited liability partnership firm established by Late Mr. Suryakant Jani to manufacture Vinyl Sulphone (VS) with a capacity of 1,800 metric tonne per annum (MTPA). In 2007, Mr. Ruchit Jani, son of Late Mr Suryakant Jani, joined the firm and initiated performance chemicals division (POC) in 2009 with a capacity of 6,000 MTPA. As on March 31, 2023, MIL has installed capacity of 3,600 MTPA for dye intermediates and 48,000 MTPA for performance chemicals at its manufacturing facility at GIDC, Vatva.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	7MFY24 (UA)
Total operating income	335.65	409.93	253.00
PBILDT	33.99	37.92	NA
PAT	17.14	13.45	NA
Overall gearing (times)	1.01	0.94	NA
Interest coverage (times)	11.54	7.99	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	87.00	CARE BBB+; Negative
Fund-based - LT-Term Loan		-	-	12-07-2028	26.64	CARE BBB+; Negative
Non-fund-based - LT/ ST-BG/LC		-	-	-	43.50	CARE BBB+; Negative / CARE A2
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	1.00	CARE BBB+; Negative / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	26.64	CARE BBB+; Negative	-	1)CARE BBB+; Stable (01-Feb-23)	1)CARE BBB+; Stable (21-Dec-21)	1)CARE BBB+ (CW with Developing Implications) (16-Dec-20) 2)CARE BBB+; Stable (10-Nov-20)
2	Fund-based - LT-Cash Credit	LT	87.00	CARE BBB+; Negative	-	1)CARE BBB+; Stable (01-Feb-23)	1)CARE BBB+; Stable (21-Dec-21)	1)CARE BBB+ (CW with Developing Implications) (16-Dec-20) 2)CARE BBB+; Stable (10-Nov-20)
3	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	1.00	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (01-Feb-23)	1)CARE BBB+; Stable / CARE A2 (21-Dec-21)	1)CARE BBB+ / CARE A2 (CW with Developing Implications) (16-Dec-20)

								2)CARE BBB+; Stable / CARE A2 (10-Nov-20)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	43.50	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (01-Feb-23)	1)CARE BBB+; Stable / CARE A2 (21-Dec-21)	1)CARE BBB+ / CARE A2 (CW with Developing Implications) (16-Dec-20) 2)CARE BBB+; Stable / CARE A2 (10-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - LT/ ST-Derivative Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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