# Gopinath CheM-Tech Limited

August 06, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term / Short-term bank facilities | 32.00 | CARE BBB-; Stable / CARE A3 | Assigned |
| Short-term bank facilities | 2.30 | CARE A3 | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of Gopinath CheM-Tech Limited (GCL) derive comfort from experienced promoters and established track record of operations in dye intermediates business, its geographically diversified revenue stream and longstanding association with reputed clientele. Ratings also factor in GCL's comfortable capital structure and adequate liquidity. However, rating remain constrained considering moderate scale of operations, profitability and debt coverage indicators and profitability susceptible to raw material price volatility and foreign exchange rate fluctuations. Ratings also factor in implementation and stabilisation risk with ongoing capex and its presence in a competitive and cyclical dye intermediate industry with adherence required to stringent pollution control norms.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Volume driven growing total operating income (TOI) to over₹330 crore and maintaining operating margins to above 6%.
- Improving capital structure marked by overall gearing below 0.5x.
- Successful completion of ongoing project within envisaged cost and time parameters.

### Negative factors

- Declining TOI to below ₹225 crore or declining operating margin to below 4%.
- Debt-funded capex other than envisaged leading to deteriorating capital structure marked by overall gearing to above unity.
- Increasing working capital cycle to above 150 days.

**Analytical approach:** Standalone

**Outlook:** Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings) view that GCL's operating performance will improve from FY25 onwards with revival in demand from end-user industry, maintenance of a comfortable capital structure post factoring in the project debt and adequate liquidity profile.

## Detailed description of key rating drivers:

### Key strengths

**Experienced promoters and established track record of operations in dye intermediates industry**

GCL commenced commercial operations in 1992 and has an established track record of over three decades in dye intermediates industry. The company is engaged in manufacturing dye intermediates and dyes. These are manufactured from chemicals such as Ortho Amino Phenol, Oleum, Metanilic Acid, Sulphuric Acid, ONT and other crude oil and sulphur derivatives. Bhupen Shah commenced business and later Dharit Shah joined in 2018. Promoters are supported by well qualified and experienced management team.

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

**Geographically diversified revenue stream and longstanding association with reputed clientele**
GCL has geographically diversified revenue stream with exports constituting ~54% of sales in FY24 (P.Y. 58%). GCL sells its products through direct marketing, catering some of the leading end users of dye industry in domestic and foreign markets to countries like China, Thailand, Korea, Taiwan, Spain, Turkey, Indonesia, and USA among others. With an established track record of over three decades and strict adherence to quality standards and delivery timelines, GCL has been able to generate repeat orders from its clients. GCL's customer base is moderately diversified as contribution from the top 10 customers remained at 53% of sales in FY24 (PY: 59%).

**Comfortable capital structure**
GCL's capital structure remained comfortable with an overall gearing of 0.30x (PY: 0.25x) as on March 31, 2024. Total debt primarily consists of fund based working capital limits, however in FY24, promoters infused unsecured loan of ₹5.5 crore to fund working capital requirement and debt funded capex. Even after considering debt-funded capex, GCL's capital structure is expected to remain comfortable going further.

## Key weaknesses

**Moderate scale of operations and profitability**
GCL's scale of operations remained moderate over past five years, however, improved sequentially y-o-y by ~16% to ₹308.50 crore in FY24 from ₹266.38 crore in FY23 mainly considering higher sales of high realisation products (realisation increased by 15% y-o-y) though there is marginal decline in sales volume (~1%). GCL achieved ~₹90 crore of TOI in Q1FY25. Operating margins has shown declining trend due to increase in raw material cost, which the company could not pass on entirely to the customer due to high competition mainly from China and slowdown in demand in end user industry. Operating margins declined 167 bps y-o-y and remained at 6.02% in FY24 from 7.69% in FY23.

**Moderate debt coverage indicators**
GCL's debt coverage indicators moderated from past years. Total debt to gross cash accruals (TD/GCA) increased to 2.53 years as on March 31, 2024, as against 1.71 years as on March 31, 2023, owing to higher outstanding debt and marginal decrease in GCA. Interest coverage stood at 9.05x for FY24 as against 25.15x for FY23 due to higher finance charges and lower operating profits.

**Susceptibility of profitability to raw material price volatility and foreign exchange rate fluctuation**
GCL's raw material constitutes primarily of petroleum and sulphur derivatives, the prices of which have exhibited volatility, considering crude oil prices in international markets. This makes GCL's profitability vulnerable to adverse movements in raw material prices given the limited bargaining power with its customers and the competitive intensity in industry. GCL is also exposed to foreign currency fluctuation risk as export sales constituted ~54% in FY24, while its raw material imports constituted ~20% translating into minimal natural hedge. GCL hedges balance portion of its exposure through forward cover. GCL's foreign currency exchange gain remained at ~₹2.03 crore in FY24 as against ₹2.5 crore in FY23.

**Implementation and stabilisation risk associated with ongoing capital expenditure**
GCL is undertaking a project to establish a new manufacturing facility for dye intermediates in Ankleshwar, Gujarat. The project, with an estimated cost of ₹57 crore will be financed through a term loan of ₹35 crore, with the remaining amount covered by promoter contributions and internal accruals. The plant is scheduled to commence operations in April 2025. Given GCL's established customer base and extensive industry experience, the risk of stabilisation in terms of achieving the projected sales volume and realisation is mitigated to a certain extent. However, project implementation risk, particularly regarding timely completion of project within estimated cost parameters, remains a critical factor from a credit perspective.

**Presence in a competitive and cyclical dye intermediate industry with strict adherence to pollution control norms**
The dye intermediate industry is highly fragmented with presence of large number of organised and unorganised players, which has led to intense competition in the industry and limited bargaining power of manufacturers. Additionally, manufacturing dye intermediates lead to generation of highly toxic/hazardous waste, players in this industry must adhere to stringent pollution control norms prevailing from time-to-time.

## **Liquidity**: Adequate

GCL has adequate liquidity as marked by sufficient GCA as against minimal debt repayment in FY25, moderate operating cycle and utilisation of working capital limits. GCL is required to maintain inventory for raw material due to a wide product basket to fulfil orders on time. Also, it offers credit period of ~90 days to its customers per industry standards, while it receives credit period of ~60 days from its suppliers, resulting in a moderate operating cycle of 116 days in FY24 (PY: 111 days). Utilisation of fund-based limit stood at ~85% for 12 months ended April 2024. Cash flow from operations stood negative at ₹4.67 crore in FY24 as against positive ₹9.74 crore in FY23 owing to significant increase in receivables.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

## About the company and industry

### Industry classification

| Macro-economic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Commodities | Chemicals | Chemicals and petrochemicals | Dyes and pigments |

Incorporated in 1989 and based in Ahmedabad, Gujarat, GCL specialises in manufacturing dyes and dye intermediates. The company operates manufacturing facilities in Mahesana and Kalol with a total installed capacity of 6,600 Metric Tonne per annum (MTPA). GCL produces over 100 chemicals used in industries, including textiles, paper, leather, cosmetics, and agriculture. GCL is currently undertaking a capital expenditure project at Saykha GIDC, Ankleshwar, to establish a new manufacturing facility for dyes and dye intermediates with an installed capacity of ~1,680 MTPA. This project is expected to commence operations in April 2025.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (P) |
|---|---|---|
| Total operating income | 266.38 | 308.50 |
| PBILDT | 20.49 | 18.58 |
| PAT | 13.15 | 11.74 |
| Overall gearing (times) | 0.25 | 0.30 |
| Interest coverage (times) | 25.15 | 9.05 |

A: Audited P: Provisional; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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/ ST-Cash Credit | | - | - | - | 23.00 | CARE BBB-; Stable / CARE A3 |
| Fund-based - LT/ ST-Standby Line of Credit | | - | - | - | 3.00 | CARE BBB-; Stable / CARE A3 |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | | - | - | - | 6.00 | CARE BBB-; Stable / CARE A3 |
| Non-fund-based - ST-Credit Exposure Limit | | - | - | - | 2.30 | CARE A3 |

## Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT/ ST-Cash Credit | LT/ST | 23.00 | CARE BBB-; Stable / CARE A3 | | | | |
| 2 | Fund-based - LT/ ST-Standby Line of Credit | LT/ST | 3.00 | CARE BBB-; Stable / CARE A3 | | | | |
| 3 | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST | 6.00 | CARE BBB-; Stable / CARE A3 | | | | |
| 4 | Non-fund-based - ST-Credit Exposure Limit | ST | 2.30 | CARE A3 | | | | |

ST: Short term; LT/ST: Long term/Short term

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

## Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT/ ST-Cash Credit | Simple |
| 2 | Fund-based - LT/ ST-Standby Line of Credit | Simple |
| 3 | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | Simple |
| 4 | Non-fund-based - ST-Credit Exposure Limit | Simple |

## Annexure-5: Lender details

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|---|
| To view lender-wise details of bank facilities please click here |

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

## Contact us

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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