C J Shah & Co.

September 27, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Short Term Bank Facilities	345.00	CARE A1	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of C J Shah & Co. (CJ Shah) derives comfort from experienced and resourceful promoter group with more than six decades of operational track record in the chemical trading business and long-standing relationship with reputed clientele base across diverse industries. The rating also factors CJ Shah's healthy scale of operations, with the firm being a leading importer of few chemicals in India, its ability to meet the requirements of diverse end-user industries, low customer concentration risk, and its stable profitability and strong liquidity.

The rating, however, remains constrained on account of CJ Shah's leveraged capital structure with high Total Outside Liabilities /Tangible Networth (TOL/TNW) and vulnerability of firm's profitability to fluctuations in exchange rate and commodity prices. The rating also factors in CJ Shah's constitution as a partnership firm with y-o-y withdrawal of profits by the partners constraining accretion of profits to its tangible net worth.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy accretion of profits to reserves, leading to improvement in TOL/TNW below 1.50x on a sustained basis.
- Accumulation of surplus liquidity at the firm's level

Negative factors

- Substantial withdrawal of capital by the partners, leading to deterioration in TOL/TNW above 3.50x on a sustained basis.
- Decline in operating margin by more than 250 bps below the prevailing level

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited (CARE Ratings) expectations that the firm shall continue to benefit from the extensive experience of promoters in the chemical trading industry and its long-standing relationship with a reputed clientele.

Detailed description of key rating drivers:

Key strengths

Experienced promoter group with established track record of operations

Founded by Late Mr. Mahesh Shah and led by his son – Mr Apurva Shah, CJ Shah has a well-established track record of more than six decades in the bulk chemical trading business. The partners are supported by Mr Aashil Shah, third generation of the family, who has been actively involved in the business for a decade.

The firm is one of the leading importers of bulk chemicals in India with a focus on key products used in additives, agro chemicals, solvents, pigments, etc. industries on bulk basis and has strong relationship with reputed suppliers and clientele.

Diversified product offering along with established relationship with reputed clientele

CJ Shah has a well-established presence in importing over 30 key chemicals in bulk, serving a wide range of end-user industries at competitive prices. Additionally, the group serves as the exclusive distributor for certain global chemical companies in the Indian market. This has fostered strong relationship with large number of reputable entities in India, with no single client contributing more than 5-7% of its total operating income (TOI), which safeguards the firm's revenue from downturns in any specific sector.

Healthy scale of operations

The TOI of the firm remained in the range of Rs.5500 - 6000 crore backed by healthy demand from end-user industries., Despite cyclicality, low reliance on a particular industry segment, a substantial share of back-to-back orders, repeat business from existing

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

clients, and low inventory levels have enabled the firm to sustain its TOI in the past and has reported TOI of Rs. 5,554 crores in FY24. Furthermore, till September 15, 2024 the firm has reported TOI of ~Rs.2800 crore

Lean operating cycle

Minimal inventory holding and strong mechanism in place to ensure timely recovery of receivables has led to efficient working capital management by the firm. The firm maintains inventory of around 25-30 days to cater to the clientele requirements and extends credit period at an average of around 90 days to its customers, while receives credit period of around 90 days from its suppliers leading to lean operating cycle of 20 days as on FY24-end.

Key weaknesses

Albeit stable, profitability remains susceptible to exchange rate and commodity price fluctuations

The operating margins of the firm susceptible to demand-supply scenario in the market, exposure to forex fluctuations and commodity price fluctuations in absence of any active hedging policy in place. Nevertheless, in past the firm has been able to manage the forex fluctuation and price variation risk quite efficiently, with maintenance of consistent operating margins.

Apart from contract-based procurement, C J Shah also gets benefits of natural hedge as the product prices (sales values) are determined in line with international markets and foreign exchange markets due to which all unsold and transit cargo naturally gets higher valuations if the exchange rates increase, which covers certain portion of volatility in its import payables in foreign currencies.

Leveraged capital structure and high total outside liabilities to tangible net worth

The capital structure of the company remained highly leveraged marked by overall gearing and TOL/TNW at around 2.8x and 3.50x respectively, owing to funding of its working capital requirement through creditors, which are partially backed by letter of credit facility and withdrawal of profits by the partners, which has constrained accretion of profits to the firm's tangible net worth.

Liquidity: Strong

Liquidity of the firm remains adequate with nil scheduled debt repayment obligation, lean operating cycle and healthy cash flow from operations. Liquidity is also supported by the financial flexibility of the partners and their willingness to support the firm's operations as and when required. Also, substantial part of partner's personal investments are provided as collateral/ margin to lenders for working capital facilities availed by the firm.

Average utilisation of working capital limits (FB+NFB) remained moderate at 69% during the trailing 12 months ended July 2024, with higher utilisation of non-fund-based limits for procurement of goods. Healthy profitability and lesser working capital changes has led to generation of sizeable operational cashflows over a period of last 3 years.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & Petrochemicals	Trading - Chemicals

Mumbai based CJ Shah & Co. (CJ Shah) was incorporated in the year 1961 and is engaged in the business of liquid & dry bulk chemical trading. CJ Shah is a leading importer of key petrochemicals and caters to demand of its diverse client base across various end-use applications industries like paints & coatings, agrochemicals, pharmaceuticals, textiles, plywood, packaging, textiles, adhesives, etc.

Apart from C J Shah & Co., the promoters and their family members operate two more companies engaged into trading of specialty chemicals and bulk chemicals viz. CJS Specialty Chemicals Private Limited and Shah C J World LLP.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	September 15, 2024 (Prov.)
Total operating income	6,103.37	5,554.04	2800.00
Overall gearing (times)	2.81	2.87	NA

A: Audited; Prov: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based/Non-fund-based-Short Term		-	-	-	345.00	CARE A1

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/Non-fund-based-Short Term	ST	345.00	CARE A1				

ST: 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/Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the 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.

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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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