

## Ahan Add-Chem Private Limited (Revised)

March 21, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	12.65 (Reduced from 15.13)	CARE B; Stable (Single B; Outlook: Stable )	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
<b>Total Bank Facilities</b>	<b>12.65</b> <b>(Rs. Twelve Crore and Sixty-Five Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Ahan Add-Chem Private Limited (AACPL) is on account of moderation in the credit risk profile of the firm owing to deterioration in the operating and financial performance characterized by decline in scale of operations of operations with net loss reported in FY21 (refers to the period from April 01 to March 31) and during 9MFY22, highly leveraged capital structure and weak debt coverage indicators along with poor liquidity position. The rating further continues to remain tempered due to its presence in competitive chemical industry and susceptibility of profit margins to volatility in raw material prices.

The rating, however, continues to draw strength from experienced promoters and their continuous support by way of infusion of funds to manage the operations of the company.

### Rating Sensitivities

#### Positive Factors

- Increase in scale of operations marked by TOI above Rs.30 crore on sustained basis with similar improvement in cash accruals
- Improvement in capital structure as marked by overall gearing below 2.00 times due to improvement in tangible net worth

#### Negative Factors

- Any adverse change in government policies related to chemical industry
- Withdrawal of support extended by promoters in the form of unsecured loans

### Detailed description of key rating drivers

#### Key Rating weakness

**Small scale of operations with net loss:** AACPL has reported the TOI of Rs. 7.32 crore in FY21 as compared to Rs. 2.79 crore in FY20. AACPL has reported operating loss of Rs.0.80 crore in FY21 as compared to loss of Rs. 3.49 in FY20. Further, due to higher depreciation charges and interest costs AACPL has continued to report net losses in FY21. AACPL has reported cash loss of Rs. 2.27 crore in FY21 and cash loss of Rs. 5.27 crore in FY20. During 9MFY22 the company has generated TOI of Rs. 0.71 crores and operating loss of Rs. 2.40 crores.

**Highly leveraged capital structure with weak debt coverage indicators:** The capital structure of AACPL was highly leveraged owing to negative net worth base due to accumulation of losses during the year. Total debt level remained at Rs. 36.29 crores in FY21 (FY20-Rs. 33.01 crore) which mainly pertains to unsecured loans of Rs. 23.37 crore (FY20-Rs. 19.09 crore), rupee term loans of Rs. 11.75 crore (FY20- Rs. 12.80 crore) and working capital borrowings of Rs. 1.18 crore (FY20-Rs. 1.12 crore). During 9MFY22 total debt is at Rs. 40.48 crores. On the back of reporting operating and cash loss during the year, debt coverage indicators remained weak marked by negative Total Debt to GCA ratio and interest coverage ratio. However, promoters are regularly infusing unsecured loan to meet its debt repayment obligation as well as working capital requirement. AACPL has infused additional unsecured loan of Rs. 4.27 crore in FY21 and Rs. 7.31 crores in FY22 till date to meet interest payment, principal debt repayment obligations and working capital requirements.

**Presence in competitive chemical industry:** The Indian Chemical Industry is characterized by high fragmentation and competitive intensity, resulting from low capital intensity and technical complexity along with lower product differentiation. However, AACPL's promoters have developed good relationship in the market through their previous association in other companies/firms.

**Susceptibility of profit margins to volatility in raw material prices:** AACPL's main raw materials include Bromination, Nitration, Hydrogenation, Friedel Craft reactions and Organophosphinates which account for nearly majority of its total cost of raw material consumption and the same will be procured from the domestic market. The prices of raw materials are

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

market driven owing to which operating margin remains volatile subject to market prices. Any adverse fluctuation in the material prices is likely to impact the profit margins of AACPL.

### Key rating strengths

**Experienced promoters:** Mr. Rakesh Saraiya has done B.E. Chemical and holds experience of more than 20 years in the chemical industry by serving as top management in few companies. whereas another promoter, Mr. Kamlesh Shah, he has done chemical engineering from USA, has successfully managed its family company named "BMS Chemie", holds very good experience in import-export activities and also served at various in Exim Club (An association of Exporters and Importers in Gujarat).

### Liquidity- Poor

Liquidity of AACPL remained poor marked by negligible cash and bank balance and inadequate accruals to meet repayment obligations. Working capital cycle has improved to 37 days during FY21 as compared to 57 days in FY20. Besides, company has reported cash loss of Rs. 2.27 crore in FY21 against rupee term loan obligation of Rs. 1.88 crore of FY22. However, directors have infused unsecured loans to the tune of Rs. 4.27 crore in FY21 and Rs. 7.31 in FY22 till date to meet the working capital requirements as well as debt obligations. Further, working capital utilization remained at 90% for twelve months ended January 31, 2022.

### Analytical approach: Standalone.

### Applicable criteria:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology – Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

Vadodara (Gujarat) based Ahan Add Chem Private Limited was incorporated in 2010 by Mr. Rakesh Saraiya, Mr Kamlesh Shah and Mrs. Malini Sanghvi. The company was incorporated to undertake manufacturing of organic chemicals (intermediate chemicals) which are used in Pharmaceuticals, Chemical and Agrochemical industries. The company had commenced its commercial operation from May 2018 onwards. AACPL is operating from its sole manufacturing unit located at Padra, Dist. Vadodara, Gujarat having installed capacity of plant is 828 MT per annum for manufacturing of organic chemicals. During FY22, the company has entered into various projects that involves two job work contracts and a buy back arrangement. The company is expected to start the work on these projects in the next few months which is expected to provide steady revenue in coming years. However, the achievement of the same remains to be seen.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	2.79	7.32	0.71
PBILDT	-3.49	-0.80	-2.40
PAT	-6.49	-3.52	NA
Overall gearing (times)	-4.97	-3.57	-2.80
Interest coverage (times)	-1.91	-0.55	-2.58

A: Audited, Pro.- Provisional, UA- Unaudited, NA- Not available

### Status of non-cooperation with previous CRA: Not Applicable

### Any other information: Not Applicable

### Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

### Disclosure of Interest of Managing Director & CEO: 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 for this company:** Annexure 4

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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Fund-based - LT-Term Loan		-	-	30 <sup>th</sup> April 2027	8.65	CARE B; Stable
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE B; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	8.65	CARE B; Stable	-	1)CARE B+; Stable (06-Jan-21)	1)CARE B+; Stable (03-Jan-20)	1)CARE B+; Stable (20-Dec-18)
2	Fund-based - LT-Cash Credit	LT	4.00	CARE B; Stable	-	1)CARE B+; Stable (06-Jan-21)	1)CARE B+; Stable (03-Jan-20)	1)CARE B+; Stable (20-Dec-18)

\* Long Term / Short Term

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
I. Enhanced Rate of Interest	Enhanced rate of interest at 1% cumulatively subject to a maximum 2% will be charged for the period of delay in respect of: <ul style="list-style-type: none"> <li>Delayed/Non-submission of financial data required for review/renewal of limits</li> <li>Delayed/Non-submission of annual financial statements</li> <li>Delayed/Non-submission of stock statements</li> </ul>
<b>B. Non-financial covenants</b>	
I. Commitment charges	Commitment charges as applicable shall be payable in case of non-utilisation of sanction limits
II. Pre-payment charges	Pre-payment charges as applicable shall be payable in case of pre-payment of Term Loan instalments

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

#### Annexure 5: Bank Lender Details for this Company

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

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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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