

Gupta Aromatics Private Limited

February 23, 2021

Rating

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|------------------------------|---------------------------|---------|---|
| Long Term Bank Facilities | - | - | Reaffirmed at CARE B+; Stable (Single B Plus; Outlook: Stable) and Withdrawn |
| Total Bank Facilities | 0.00 (Rs. Only) | | |

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reviewed and reaffirmed the rating assigned to the bank facilities of Gupta Aromatics Private Limited (GAPL) to CARE B+; Stable (Single B; Outlook: Stable) and has simultaneously withdrawn it, with immediate effect. The rating factors in the constraints relating to company's short track record and modest scale of operations, low profitability margins and leveraged capital structure, weak coverage indicators, susceptibility to fluctuations in raw material prices and highly competitive nature of the industry. The rating, however, continues to take comfort from experienced management and moderate operating cycle.

The rating withdrawal is at the request of Gupta Aromatics Private Limited and 'No Objection Certificate' received from the bank that has extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key Rating Weaknesses

Short track record and modest scale of operations

The company commenced operations in November 2016 and has limited track record in this industry; thus, FY18 has been its first full year of operations. Despite, this, the scale of operations of the company have been continuously growing over the years though stood modest as marked by total operating income of Rs.52.67 crore and Rs.1.57 crore respectively in FY20 (based on provisional results) as against Rs.58.38 crore and Rs.1.42 crore respectively in FY19 (refers to the period April 01 to March 31).

Low profitability margins and leveraged capital structure

The company operates in the highly competitive nature of industry characterized by intense competition with limited value addition. The profitability margins of the company improved yet stood low as marked by PBILDT and PAT margins of 5.68% and 2.30% respectively in FY20 as against 4.83% and 1.80% respectively for FY19.

The capital structure continues to be leveraged though improved as marked by overall gearing ratio of 3.44x as on March 31, 2020(based on provisional results) as against 4.89x as on March 31, 2019. The improvement is on account of repayment of unsecured loans coupled with accretion of profits to reserves.

Weak coverage indicators

The coverage indicators stood weak as marked by total debt to GCA and interest coverage ratio of 8.68x and 2.11x respectively for FY20(Prov.) as against 9.45x and 2.70x respectively for FY19.

Susceptibility to fluctuations in raw material prices

Beta terpineol, mentha oil, is name of few major raw materials for the companies, which are the crude oil derivatives procured from players operating in domestic market. Its price is dependent on crude oil prices which are highly volatile. Raw material costs has always been a major contributor to total operating cost constituting around 70% in past two years, thereby making profitability sensitive to raw material prices. The company is small player and has low bargaining power with its customers, which limits the ability of the company to entirely pass on any increase in the raw material costs. Thus, any adverse change in the prices of the raw material may affect the profitability margins of the company.

Highly competitive nature of the industry

Extraction and refining business in India is highly fragmented due to presence of large number of unorganized players in the lower end of the bulk segment and presence of large and established players in the high end of market. Due to high degree of fragmentation, small players hold very low bargaining power against both its customers as well as its suppliers.

Key Rating Strengths

Experienced Management

The operations of GAPL are currently being managed by Mr. Ratan Lal Gupta and Mr. Mukesh Gupta. Mr. Ratan Lal Gupta and Mr. Mukesh Gupta both are post graduates by qualification and have an experience of more than two decades in oil industry through their association with GAPL and other family run businesses. Both the directors collectively look after the daily operations of the company with the help of well qualified and expert management personnel.

Moderate operating cycle

The operating capital cycle stood moderate at 76 days during FY20(Prov.) primarily as it receives a credit period of around 2-3 months from its suppliers resulting in to an average credit period of 112 days in FY20(Prov.). The company maintains inventory in the form of raw material for smooth production process and finished goods to meet the immediate demand of customers resulting into an average inventory holding of 79 days in FY20(Prov.). The company operates in competitive industry and adopts a liberal credit policy wherein it gives credit of 2-3 months to its customers resulting in average collection period of 109 days in FY20(Prov.). The average utilization of working capital limits stood around 75% utilized for the past ten months ended January, 2021.

Liquidity: The average utilization of working capital limits stood at ~75% for the past ten months period i.e. April 1, 2020 to January 31, 2021. The company had not availed the moratorium on its bank facilities as per RBI guidelines in wake of Covid-19 pandemic.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

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

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

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

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

[Rating Methodology - Manufacturing Companies](#)

About the company

Ghaziabad, Uttar Pradesh based, Gupta Aromatics Private Limited (GAPL) was incorporated in the year 2010 and started its commercial operation from November 2016. The company is currently being managed by Mr. Ratan Lal Gupta, Mr. Mukesh Gupta. GAPL is engaged into manufacturing of natural menthol, essential oils and aroma chemicals through processes such as refining, distillation, hydrogenation etc. at its manufacturing facility located in Ghaziabad, Uttar Pradesh with an installed capacity of 1200 metric tonnes per annum. GAPL sells its products domestically to buyers and manufacturing companies located across India and also exports them to Nepal and the product finds its application in cosmetics, pharmacy, toiletry industries etc.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) | FY20 (Prov.) |
|------------------------------|----------|----------|--------------|
| Total operating income | 53.26 | 58.38 | 52.67 |
| PBILDT | 1.74 | 2.82 | 2.99 |
| PAT | 0.67 | 1.05 | 1.21 |
| Overall gearing (times) | 4.06 | 4.89 | 3.44 |
| Interest coverage (times) | 3.35 | 2.70 | 2.11 |

A: Audited Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit | - | - | - | 0.00 | Withdrawn |
| Fund-based - LT-Proposed fund based limits | - | - | - | 0.00 | Withdrawn |
| Fund-based - LT-Term Loan | - | - | - | 0.00 | Withdrawn |

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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Cash Credit | LT | - | - | - | 1)CARE B+; Stable (09-Dec-19) | 1)CARE B+; Stable (30-Nov-18) | - |
| 2. | Fund-based - LT-Proposed fund based limits | LT | - | - | - | 1)CARE B+; Stable (09-Dec-19) | 1)CARE B+; Stable (30-Nov-18) | - |
| 3. | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE B+; Stable (09-Dec-19) | - | - |

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Fund-based - LT-Proposed fund based limits | Simple |
| 3. | Fund-based - LT-Term Loan | Simple |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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