Gupta Aromatics Private Limited

December 09, 2019

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	10.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	**Reaffirmed**
Total facilities	**10.00 (Rs.Ten crore only)**		

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The rating assigned to the bank facilities of Gupta Aromatics Private Limited (GAPL) continues to remain constrained by short track record and modest scale of operations, low profitability margins and leveraged capital structure and weak debt coverage indicators. The rating is further constrained on account of susceptibility to fluctuations in raw material prices, highly competitive nature of industry and stretched liquidity position.

The rating, however, continues to draw comfort from experienced management and moderate operating cycle.

Rating sensitivities

Positive Factors

- Increase in scale of operations to the tune of around Rs.100 crore on sustained basis.
- Improvement in profitability margins as marked by PBILDT and PAT margins above 6% and 4% respectively on a sustained basis.
- Improvement in capital structure as marked by overall gearing ratio below 1.50x on a sustained basis.

Negative Factors

- Elongation in working capital cycle to more than 100 days along with significant decline in GCA on combined basis adversely affecting its debt coverage indicators

Detailed description of key rating drivers

Key rating weakness

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.58.38 crore and gross cash accruals of Rs.1.42 crore in FY19 (refers to the period April 01 to March 31) as against Rs.53.26 crore and Rs.0.99 crore respectively in FY18. Further, the company's net worth base was relatively small at Rs.2.75 crore as on March 31, 2019. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Further, the company is projecting a turnover of Rs.60 crore in FY20 and during 7MFY20 it has already achieved total operating income of Rs.35.00 crore. The company has orders of Rs.4- 5 crore in hand to be delivered till December, 2019.

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 4.83% and 1.80% respectively for FY19 as against 3.26% and 1.25% respectively for FY18. The PBIDT margin increased by 157 bps during FY19 on account of better cost management by the company. Consequently, the PAT margin also improved by 55 bps.

As on March 31, 2019, the debt profile of the company comprises of term loan of Rs.0.35 crore, working capital borrowings of Rs.7.72 crore and unsecured loans of Rs.5.34 crore respectively as against tangible net worth of Rs.2.75 crore. The capital structure of the company stood leveraged as marked by overall gearing ratio of 4.89x as on March 31, 2019 as against 4.06x as on March 31, 2018 owing to increase in total debt along with low net worth base and high dependence on external borrowings to meet the working capital requirements.

Weak coverage indicators

Coverage indicators deteriorated as marked by interest coverage and total debt to GCA of 2.70x and 9.45x respectively in FY19 as against 3.35x and 6.96x respectively in FY18. The deterioration was on account of higher debt levels due to additional term loan availed along with higher utilisation of working capital limits, leading to higher interest cost.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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.

Stretched liquidity position

Liquidity is stretched marked by tightly matched accruals to repayment obligations, highly utilised bank limits to the extent of almost 100% and modest cash and bank balances of Rs.0.06 crore as on March 31, 2019. The current and quick ratios stood at 1.15x and 0.79 times respectively as on March 31, 2019.

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 52 days during FY19 primarily as it receives a credit period of around 2-3 months from its suppliers resulting in to an average credit period of 72 days in FY19. 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 45 days in FY19. 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 80 days in FY19. The average utilization of working capital limits stood around 90% utilized for the past twelve months ended October, 2019.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology - Wholesale Trading
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

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)
Total operating income	53.26	58.38
PBILDT	1.74	2.82
PAT	0.67	1.05
Overall gearing (times)	4.06	4.89
Interest coverage (times)	3.35	2.70

A-Audited

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	-	-	-	8.00	CARE B+; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	1.27	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	March 2024	0.73	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	8.00	CARE B+; Stable	-	1)CARE B+; Stable (30-Nov-18)	-	-
2.	Fund-based - LT-Proposed fund based limits	LT	1.27	CARE B+; Stable	-	1)CARE B+; Stable (30-Nov-18)	-	-
3.	Fund-based - LT-Term Loan	LT	0.73	CARE B+; Stable	-	-	-	-

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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