MetroGlobal Limited

April 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	25.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	30.00 (reduced from 40.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**55.00 (Rs. Fifty five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MetroGlobal Limited (MGL) continue to derive strength from the vast experience of the promoters in chemical industry, established clientele in the trading business, comfortable capital structure and debt coverage indicators. The ratings also factor in MGL's comfortable liquidity and steady income from various real estate projects wherein it has made substantial investments.

The ratings, however, continue to remain constrained by the risk associated with trading nature of operations, foreign exchange rate fluctuation risk, cyclical nature of chemical and dyes industry and risks associated with significant investments in real estate sector.

Ability of MGL to maintain profitability while increasing its scale of its operations along with timely realization of envisaged return from its investments in real estate projects and the size of any future acquisitions would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing experience of the promoters in dyes & dye intermediates and chemical industry: MGL has an established track record of over 25 years in the dyes and dye intermediates industry. Initially, MGL was in the business of manufacturing dyes and dye intermediates at its manufacturing facilities at Ahmedabad and Vadodara. But since FY10, MGL has shifted its focus towards trading of dyes, dye intermediates and other chemicals which now constitute a major share of its revenue.

Mr. Gautam Jain, CMD, has over three decades of experience in the chemical industry and has varied experience in the areas of finance, taxation, accounts and legal matters.

Stable financial performance during FY17, albeit comfortable capital structure and debt coverage indictors: During FY17, MGL's total operating income and operating profitability remained largely in line with FY16. Further, during FY17, interest and finance charges remained low on account of very low utilization of bank facilities. PAT margin remained moderate at 4.28%. MGL's capital structure and debt coverage indicators remained comfortable as indicated by an overall gearing of 0.27x as on March 31, 2017 and PBILDT interest coverage ratio of 9.53 times during FY17. MGL's operations remained stable during 9MFY18 also.

Comfortable liquidity: MGL's liquidity remained comfortable marked by low utilization of its fund based working capital limits at 33% for the 12 months ended December 2017 and sizeable free cash and liquid investments available (Rs.54.13 crore as on March 31, 2017) as against its outstanding external debt (Rs.36.90 crore as on March 31, 2017). Further, the utilization of non-fund based limits, used for imports, also remained low at 9% for the 12 months ended December 2017,

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

as the volume of imports generally remains low. Furthermore, MGL's operating cycle also remained comfortable at 34 days during FY17.

Key Rating Weaknesses

Cyclicality associated with the chemical and dyes industry along with inherent risks of trading business: Post sale of its Vadodara manufacturing facility and gradual reduction of dye manufacturing at its Ahmedabad facility, MGL shifted its focus to trading of chemicals (majorly dye and dye intermediates). MGL imports a certain portion of dye and dye intermediates and sells it in the domestic market. Accordingly, MGL is exposed to risks associated with trading nature of business viz. price fluctuations risks, exchange rate fluctuations risks etc. Further, the dyes industry in India is fragmented and unorganized. Approximately 80% of the total dyes production find application in the textile industry, mainly polyester and cotton fabric, and hence are susceptible to inherent cyclicality associated with the end user industry. There has been fall in demand for reactive dyes in the global market in the past because of cyclical slowdown in demand from the cotton textile industry.

Inherent risks associated with ongoing projects in real estate sector: On sale of its dye manufacturing facility at Vadodara, MGL had received Rs.165 crore from HIPL which has been utilised by MGL to diversify its business scope and it has entered into the real estate sector by making investments in development projects in collaboration with various established industry players. MGL receives fixed interest rate on its investments (12% to 18%) apart from its share of profit from real estate ventures. During FY17, MGL earned interest income of Rs.19.53 crore from its investments in real estate sector. Looking at the inherent risk in the real estate segment, the envisaged return from these investments is fraught with some degree of uncertainty.

Analytical approach: Standalone

Applicable Criteria:
[Rating Methodology - Wholesale Trading]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios - Non- Financial Sector]

About the Company

MGL, promoted by Mr. Gautam Jain and Mr. Rahul Jain is engaged in the business of trading of dyes, dye intermediates & other chemicals and investments in real estate projects. Initially it was promoted by Mr. Gautam Jain as Rahul Dye Chem Industries Pvt. Ltd. (RDIPL) in 1987. Subsequently it was converted into a public limited company in 1993 and the name was changed to Metrochem Industries Ltd. (MIL). MIL had manufacturing facilities at Ahmedabad and Vadodara for production of dyes and dye intermediates. In 2009, MIL demerged its Vadodara unit (comprising almost 90% of its manufacturing capacity) and sold it to Huntsman International (India) Pvt. Ltd. (HIPL). In FY11, MIL had a reverse merger with Global Boards Ltd (GBL) and the name of the company was changed to Metroglobal Limited (MGL). Presently, MGL does not have any manufacturing operations and is focused on trading business. Also, MGL has invested substantial funds in several ongoing real estate projects in and around the city of Ahmedabad.

Brief financials of MGL are tabulated below:

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	358.15	350.64
PBILDT	20.62	19.70
PAT	15.56	15.02
Overall gearing (times)	0.32	0.27
Interest coverage (times)	10.86	9.53

A: Audited

As per the provisional results of 9MFY18, MGL reported a TOI of Rs.235.29 with PAT of Rs.16.27 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	10.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	30.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	1)CARE BBB+; Stable (12-Apr-17)	-	1)CARE BBB+ (18-Feb-16)	1)CARE BBB (08-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	1)CARE BBB+; Stable (12-Apr-17)	-	1)CARE BBB+ (18-Feb-16)	1)CARE BBB (08-Dec-14)
3.	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	-	1)Withdrawn (18-Feb-16)	1)CARE BBB (08-Dec-14)
4.	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A2	1)CARE A2 (12-Apr-17)	-	1)CARE A2 (18-Feb-16)	1)CARE A3+ (08-Dec-14)

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