MetroGlobal Limited

April 03, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	20.54 (reduced from 25.00)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	25.00 (reduced from 30.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**45.54 (Rs. Forty five crore and fifty four lakh 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 its substantial investments.

The ratings, however, continue to remain constrained on account of the risk associated with trading nature of operations, foreign exchange rate fluctuation risk, cyclical nature of chemical and dyes industry and risks associated with its sizeable investments, some of which are in the cyclical real estate sector.

Ability of MGL to maintain and improve its profitability while increasing its scale of its operations along with timely realization of envisaged return from its investments, including those 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 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. However, after the sale of its primary manufacturing unit, 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.

Comfortable capital structure and debt coverage indictors: During FY18, MGL's total operating income (TOI) remained largely in line with previous year. However, the operating profit margin declined by 124 bps to 4.38% during FY18, underlining the volatility in trading operations along with the effect of a bad debt written off during the year. Despite the reduction in operating profitability, MGL's PAT margin improved to 5.40% (P.Y.: 4.28%) in FY18 on account of profit on sale of investment of Rs.10.56 crore, which also resulted in higher cash accruals. MGL's capital structure and debt coverage indicators remained comfortable marked by overall gearing of 0.24x and interest coverage ratio of 8.57x during FY18. Further, during 9MFY19, MGL reported a 28.47% y-o-y growth in its TOI to Rs.290.35 crore, while its operating profitability remained largely stable. However, its PAT was lower in 9MFY19 on account of dispute settlement payment of Rs.17.00 crore made to Huntsman International (India) Pvt. Ltd. (HIPL), which was offset to a certain extent by the profit of
Rs.11.89 crore on sale of land. This decline in PAT margin translated into lower cash accruals during the period. However, MGL's overall gearing remained comfortable at 0.23x as on December 31, 2018.

Comfortable liquidity: MGL's liquidity remained comfortable marked by low utilization of its fund based and non-fund based working capital limits at around ~50% for the 12 months ended December 2018 and a comfortable operating cycle of 45 days during FY18. Further, as against its total debt of Rs.74.62 crore as on December 31, 2018, MGL had outstanding cash and liquid investments of Rs.64.45 crore, translating into negligible outstanding net debt. Also, out of the total debt of Rs.74.62 crore as at end 9MFY19, around Rs.40.47 crore was by way of unsecured loans from promoters, providing comfort to that extent. MGL's term loan repayment requirements of around Rs.1.00 crore p.a. over the next 2-3 years ending FY21 are expected to be met through internal accruals, given its healthy profitability and cash accrual generation. However, any sizeable unexpected capex or investment requirements could affect its liquidity.

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

Key Rating Weaknesses

Cyclicality associated with the chemical 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 opportunity based trading of chemicals. This exposes MGL to risks associated with trading nature of business viz. price fluctuations risks and exchange rate fluctuations risks. Further, the chemicals industry in India is fragmented and has presence of a large number of unorganized players. It is also exposed to the business cycles in the end use industries on account of its close linkages with the demand scenario in these industries.

Inherent risks associated with investments, including those in the real estate sector: MGL had received Rs.165 crore from HIPL towards sale of its Vadodara manufacturing unit, which has been utilised by MGL to invest in various entities as inter-corporate deposits (ICDs). While MGL receives fixed interest rate on these ICDs (Rs.17.87 crore in FY18), it also exposes MGL to the business risks of these entities. Some of these investments, primarily in real estate sector, are also on a profit sharing basis, which exacerbates the risk involved with these investments.

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 was 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, the company has invested substantial funds by way of inter corporate deposits (ICDs) various entities, some of which are in real estate development. Presently, MGL is managed by Mr. Gautam Jain and Mr. Rahul Jain.

Brief financials of MGL are tabulated below:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	350.64	328.05
PBILDT	19.70	14.36
PAT	15.02	17.71
Overall gearing (times)	0.27	0.24
Interest coverage (times)	9.53	8.57

A: Audited

Further, during 9MFY19, as per the unaudited financials, MGL reported a total operating income of Rs.290.35 crore and PAT of Rs.10.16 crore as against TOI of Rs.226.01 crore and PAT of Rs.16.27 crore during 9MFY18.

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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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	-	-	-	10.54	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	25.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-18)	1)CARE BBB+; Stable (12-Apr-17)	-	1)CARE BBB+ (18-Feb-16)
2.	Fund-based - LT-Cash Credit	LT	10.54	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-18)	1)CARE BBB+; Stable (12-Apr-17)	-	1)CARE BBB+ (18-Feb-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (18-Feb-16)
4.	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A2	1)CARE A2 (03-Apr-18)	1)CARE A2 (12-Apr-17)	-	1)CARE A2 (18-Feb-16)

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