MetroGlobal Limited

November 22, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	**20.54**	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	**25.00**	**CARE A2 (A Two)**	**Reaffirmed**
Total Facilities	**45.54 (Rupees Forty Five crore and Fifty Four lakh only)**		

Details of instruments/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 extensive experience of its promoters in the chemical industry, its established customer base in the trading business, moderate scale of operations along with comfortable capital structure and debt coverage indicators. The ratings also factor MGL's adequate liquidity with cash and liquid investments in excess of its outstanding debt.

The ratings, however, continue to remain constrained by the inherent risk associated with trading nature of operations, susceptibility of MGL's profitability to fluctuation in foreign exchange rate which is albeit hedged to a sizeable extent, cyclical nature of chemical industry and risks associated with its sizeable investments, some of which are in the cyclical real estate sector.

Rating Sensitivities

Positive Factors

- Consistent growth in scale of operations supported by revenue diversification along with sustained improvement in PBILDT margin beyond 6.50%
- Significant reduction in its exposure to various real estate ventures

Negative Factors

- Significant decline in scale of operations along with deterioration in PBILDT margin below 4%
- Significant reduction in its outstanding liquid investments which presently act as a cover for its debt as well as provides it with enhanced liquidity
- Elongation in operating cycle beyond 60 days with increased reliance on working capital bank borrowings
- Any large sized debt-funded capex/acquisition resulting in deterioration in overall gearing beyond 0.50x
- Any sizeable delinquency in investments/advances extended along with exposure to any single entity exceeding 10% of its net worth

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing experience of promoters in the chemical industry along with established clientele: MGL has an established track record of operations of more than 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 located at Ahmedabad and Vadodara. However, after the sale of its primary manufacturing unit, MGL shifted its focus to trading of dyes, dye intermediates and other chemicals. Over its presence of more than 25 years in the chemical industry, MGL has a well-established and diversified clientele in the industry. MGL is promoted by Mr. Gautam Jain, CMD, who has over three decades of experience in the chemical industry. He is ably assisted by Mr. Rahul Jain, who has more than a decade of industry experience.

Moderate scale of operations with steady income from investments: MGL operates on a moderate scale marked by total operating income (TOI) of Rs.332.47 crore in FY19. MGL's TOI was largely in line with that reported in the previous year. Its PBILDT margin expanded by 252 bps to 6.90% in FY19 due to higher spread realized on traded products along with lower selling expense which was impacted in FY18 on account of some write-off of bad debts. Despite the improvement in PBILDT margin, MGL's PAT margin was lower by 159 bps y-o-y during FY19 on account of higher interest cost as well as extraordinary expense of Rs.17.00 crore incurred during the year for settlement of dues under arbitration process in relation to sale of

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

Vadodara unit to Huntsman International (India) Pvt. Ltd. (HIPL). This expense was offset to a large extent by proceeds on account of sale of land (Rs.20.70 crore; profit of Rs.14.65 crore). Also, MGL has been receiving steady interest income on the advances it has given to various entities. During H1FY20, MGL's TOI moderated by 7% y-o-y on the back of slowdown in demand of chemicals from its customers. Its PBILDT margin also moderated by 313 bps to 4.46% in H1FY20 on the back of lower spread in trading operations along with increase in its operating overheads. In line with decline in operating profitability, PAT margin was also lower by 282 bps y-o-y with largely stable interest cost and marginally higher depreciation.

Comfortable capital structure and debt coverage indictors: MGL's capital structure continued to be comfortable marked by overall gearing of 0.28x (P.Y.: 0.24x) as on March 31, 2019. Free cash and liquid investments exceeded total outstanding debt as on FY19 end resulting in nil net debt position for MGL. Furthermore, MGL's debt coverage indicators, though moderated in FY19, continued to be comfortable. Interest coverage and total debt/GCA deteriorated from 8.57x and 3.93x as in FY18 to 5.63x and 6.56x as in FY19 respectively on account of increase in total outstanding debt and resultant increase in interest cost coupled with lower cash accruals. However, MGL's overall gearing improved to 0.10x as on Sept. 30, 2019 despite reduction in networth by Rs.22.40 crore on buyback of shares in May 2019, primarily on account of significantly lower working capital bank borrowings.

Adequate liquidity: MGL had adequate liquidity marked by current ratio of 3.76x as on FY19 end and low utilization of its cash credit limit at around ~13% for the past 12 months ended September 2019. Its operating cycle improved from 45 days in FY18 to 25 days in FY19. Furthermore, as on September 30, 2019, MGL had free cash and liquid investment of Rs.66.73 crore as against total outstanding debt of Rs.30.19 crore resulting in nil net debt position. Also, MGL has minimal scheduled term loan repayments (of less than Rs.20 lakh per annum) over the next 2-3 years ended FY22 which are expected to be met comfortably through its internal accruals, given its healthy profitability and cash accrual generation. However, any sizeable debt funded capex or investment requirements could affect MGL's liquidity.

Key Rating Weaknesses

Susceptibility of profitability to foreign exchange rate fluctuation: MGL sources chemicals from international as well as domestic market for its onward sale to domestic customers. Reliance on imports for procurement of chemicals exposes MGL's profitability to any adverse fluctuation in foreign exchange rates. However, to mitigate the same to some extent, MGL hedges 80% of its forex exposure, while the balance is kept unhedged.

Cyclicality associated with the chemical industry along with inherent risks of trading business: Post sale of its Vadodara manufacturing facility and discontinuation of dye manufacturing at its Ahmedabad facility, MGL shifted its focus to trading of various chemicals. This exposes MGL to risks associated with trading nature of business viz. price fluctuation risk, due to inherently thin margin in the business as well as exposure to adverse movement in exchange rates. Also, the chemical trading industry in India is highly competitive and fragmented in nature with presence of a large number of unorganized players. It is also exposed to the business cycles of various end user 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 utilized by MGL to invest in various entities as inter-corporate deposits (ICDs). While MGL receives interest at predetermined rates on these ICDs (Rs.17.85 crore in FY19), it also exposes MGL to the business risks of these entities. A part of this advances, primarily in real estate sector, are also on a profit sharing basis, which exacerbates the risk involved in these deployment of capital.

Analytical approach: Standalone

Applicable Criteria

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

About the Company

MetroGlobal Ltd. (MGL) was initially promoted by Mr Gautam Jain as Rahul Dye Chem Industries Pvt. Ltd. (RDPL) 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). Post that, in FY11, MIL merged itself with Global Boards Ltd. (GBL) and the name of the company was changed to the present one. Presently, MGL does not have any manufacturing operations and is focused on the trading business. Also, the company has invested substantial amount of its networth by way of inter corporate deposits (ICDs) in various entities, some of which are in real estate development. Presently, MGL is managed by Mr Gautam Jain and Mr Rahul Jain.

Brief Financials - Standalone (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	328.05	332.47
PBILDT	14.36	22.93
PAT	17.71	12.66
Overall gearing (times)	0.24	0.28
Interest coverage (times)	8.57	5.63

A: Audited

Further, as per H1FY20 provisional financials, MGL reported a TOI of Rs.155.84 crore with a PAT of Rs.4.48 crore as against a TOI of Rs.167.09 crore and PAT of Rs.9.50 crore reported in H1FY19.

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	-	-	-	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 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	10.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Apr-18)	1)CARE BBB+; Stable (12-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	10.54	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-19)	1)CARE BBB+; Stable (03-Apr-18)	1)CARE BBB+; Stable (12-Apr-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A2	1)CARE A2 (03-Apr-19)	1)CARE A2 (03-Apr-18)	1)CARE A2 (12-Apr-17)	-

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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