MetroGlobal Ltd.

April 12, 2017

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	25.00 (reduced from 35.00)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term bank facilities	40.00 (enhanced from 15.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total Bank Facilities	**65.00 (Rupees sixty five crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from vast experience of the promoters of MetroGlobal Ltd. (MGL) in chemical industry, large 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 industry and risks associated with significant investments in real estate sector.

Ability of MGL to maintain profitability with increasing 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. Since FY10, MGL has shifted its focus towards trading of dyes, dye intermediates and other chemicals, which now constitutes the major share of its revenue. Mr. Gautam Jain, CMD, has over three decades of experience in the dyes industry.

Comfortable capital structure and debt coverage indictors along with benefit of carried forward losses of erstwhile GBL

Capital structure and debt coverage indicators of MGL remained comfortable as indicated by an overall gearing of 0.32 times as on March 31, 2016 and PBILDT interest coverage ratio of 10.86 times during FY16.

Post reverse merger of Metrochem Industries Ltd. (MIL) with Global Boards Ltd. (GBL), MGL had received benefits of unabsorbed depreciation and carry forward losses. The same amount to Rs.59.24 crore as on March 31, 2016 which has led to tax benefits.

Large customer base in the trading segment

MGL sources chemicals from China, Indonesia, South Africa, Syria, Iran, Saudi Arabia, other Middle East countries and from the domestic market for its onward sale in the domestic market. MGL has a diversified product portfolio and a large customer base in the trading segment.

Comfortable Liquidity position and steady income from various real estate projects

MGL has been mostly utilizing non-fund based limits for import of dye and dye intermediates. The fund based working capital limit utilization was very low at around 30% during the past 12 months ended January 2017. The operating cycle of MGL has remained steady at 36 days during FY16. Also, MGL has comfortable liquidity position as on March 31, 2016 marked by available free cash & bank balance of Rs.52.31 crore.

MGL receives agreed upon fixed interest rate on its investments apart from its share of profit from real estate ventures. During FY16, it has earned interest income of Rs.18.90 crore from its investments in real estate sector.

Key Rating Weaknesses

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

Moderation in financial performance during FY16

Due to decline in crude oil prices, the financial performance of MGL moderated during FY16 compared to FY15. During FY15, MGL had reported divided income of Rs.15.29 crore on mutual funds and also reported loss on sale of mutual funds amounting Rs.15.79 crore which had led to higher PBILDT during FY15. Also, the PAT has moderated during FY16 as compared to FY15 on account of Minimum Alternate Tax (MAT) obligation for Rs.4.00 crore.

Inherent risk of trading business coupled with cyclicality associated with the chemical industry

MGL is indulging in import of dye and dye intermediates and selling the same in domestic market. Also, only part of its imports is backed by confirmed sales orders. Accordingly, it is exposed to risks associated with trading nature of business viz. price fluctuations risks, exchange rate fluctuations risks etc.

Prices of dye and dye intermediates are determined by global demand & supply with little domestic control. Over the last few years the dye and dye intermediates industry in India performed well because of decline in imports of key dyestuffs from China largely on account of shutdown of some of the major plants in China owing to implementation of stiff pollution control norms. This created demand supply mismatch and benefitted the domestic players. However, it continues to remain a very cyclical business.

Inherent risks associated with investments in the ongoing projects in real estate sector

Post sale of its dye manufacturing facility at Vadodara, MGL had received significant consideration 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 real estate projects in collaboration with various established developers. Looking at the subdued real estate sector scenario, some degree of uncertainty related to envisaged return from these investments cannot be ruled out.

Plans to acquire a chemical unit

MGL is searching to acquire operational chemical unit which has all the required pollution control approvals in place wherein production can ramp up easily. However, MGL has not yet crystallized the size of acquisition, modalities of its funding and its timelines.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Wholesale Trading
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 transferred 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). Currently there is no manufacturing operations of the company and is focused on trading operations. Also, it has invested substantial funds in several ongoing real estate projects in and around the city of Ahmedabad.

During FY16 (refers to the period April 1 to March 31), MGL reported a total operating income of Rs.358.15 crore (FY15: Rs.392.62 crore) with a PAT of Rs.15.56 crore (FY15: Rs.23.53 crore). As per the un-audited results for 9MFY17, MGL reported a total operating income of Rs.255.22 crore with a PAT of Rs.14.22 crore.

Status of non-cooperation with previous CRA: Not Applicable

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.*

Analyst Contact:
Name: Hardik Shah
Tel: 079 – 40265620

Mobile # 9898802101
Email: hardik.shah@careratings.com

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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	NA	NA	NA	10.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	15.00	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	NA	NA	NA	40.00	CARE A2

NA: Not Applicable

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+ (18-Feb-16)	1)CARE BBB (08-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	-	1)CARE BBB+ (18-Feb-16)	1)CARE BBB (08-Dec-14)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Feb-16)	1)CARE BBB (08-Dec-14)
4.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A2	-	-	1)CARE A2 (18-Feb-16)	1)CARE A3+ (08-Dec-14)

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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