MetroGlobal Limited

November 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Stable (Triple B Plus; Outlook: Stable) and Withdrawn
Short-term Bank Facilities	-	-	Withdrawn
Total Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Stable/ CARE A2' [Triple B Plus; Outlook: Stable/ A Two] assigned to the bank facilities of MetroGlobal Limited (MGL) with immediate effect. The above action has been taken at the request of MGL and 'No Objection Certificate' as well as 'No Dues Certificate' received from the lenders that have extended the facilities rated by CARE.

The ratings assigned to the bank facilities of MGL, prior to its withdrawal, continued 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 as well as its comfortable capital structure and debt coverage indicators. The ratings also factored in MGL's adequate liquidity with cash and liquid investments in excess of its outstanding debt.

The ratings, however, continued 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.

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: During FY20, MGL's total operating income (TOI) declined by 26% y-o-y but continued to remain moderate at Rs.246.39 crore. The decline was due to lower trading income registered during the period amidst slow recovery witnessed in the chemical industry as well as lower sales in the last quarter of FY20 with outbreak of Covid-19 pandemic globally. Despite this decline in scale of operations, MGL's operating profit (PBILDT) margin remained stable at 6.91% during FY20 (6.90% in FY19). This along with stable interest cost and depreciation incurred during the period resulted in stable PAT margin for MGL during FY20.

During Q1FY21 as well, MGL's TOI declined by 30% y-o-y due to disruption in operations caused by the pandemic. Margin on its traded products were also impacted during the quarter due to overall sluggish demand and uncertainty with pandemic outbreak which led to a decline of 340 bps in PBILDT margin on y-o-y basis. In line with this, MGL's PAT margin also declined by 280 bps y-o-y, with lower interest cost being offset by marginally higher depreciation during the period.

Comfortable capital structure and debt coverage indictors: MGL continued to have a comfortable capital structure with overall gearing of 0.04x (0.28x as on March 31, 2019) as on March 31, 2020 and 0.01x as on June 30, 2020 with reduction in debt during both the periods. MGL's cash and bank balance continued to exceed its debt as on FY20 end as well as Q1FY21 end resulting in zero net debt position for the company.

Debt coverage indicators of the company also continued to be comfortable during FY20. While interest coverage moderated to 3.61x in FY20 from 5.63x in FY19 due to lower operating profit owing to decline in scale of operations coupled with almost

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

stable interest cost, total debt/ GCA and total debt/ PBILDT improved to 0.97x (6.56x in FY19) and 0.61x (3.75x in FY19) respectively in FY20 due to lower outstanding debt.

Adequate liquidity: MGL had adequate liquidity with a lean operating cycle, low utilization of its working capital limits and substantial free cash and liquid investments.
During FY20, MGL'S operating cycle improved to 10 days from 25 days in FY19 due to lower inventory holding period with slowdown in trading activity with outbreak of pandemic as well as substantial reduction in MGL's payables along with some decline in receivables due to lower sales. Furthermore, MGL had free cash and bank balance of Rs.37.12 crore and Rs.35.09 crore as well as investment of Rs.38.70 crore and Rs.46.55 crore as on March 31, 2020 and June 30, 2020, respectively. As informed by the lenders, utilization of its working capital limits remained almost Nil over the past eight to nine months. Also, MGL did not avail moratorium on its bank facilities, as available under the Covid-19 pandemic relief package of the Reserve Bank of India.

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. Its reliance on imports for procurement of chemicals exposes the profitability to any adverse fluctuation in foreign exchange rates. However, to mitigate the same to certain extent, MGL hedges majority of its forex exposure.

Cyclicality associated with the chemical industry along with inherent risks in the trading business: Post sale of its manufacturing facility in Vadodara and discontinuation of dye manufacturing at its Ahmedabad facility, MGL shifted its focus to trading of various chemicals. 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. Also, due to trading nature of business, MGL is exposed to price fluctuation risk due to inherently thin margin in the business as well as exposure to adverse movement in exchange rates.

Inherent risks associated with investments, including those in the real estate sector: MGL had received Rs.165 crore from Huntsman International (India) Pvt. Ltd. towards sale of its Vadodara manufacturing unit, which were utilized by MGL to invest in various entities as inter corporate deposits (ICDs). While MGL receives interest at predetermined rates on majority of these ICDs, it also exposes MGL to the business risks of these entities. A part of these advances, primarily in real estate sector are on a profit sharing basis, which exacerbates the risk involved in the deployment of capital.

Analytical approach: Standalone

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning Outlook to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector entities
Rating Methodology - Wholesale Trading
Financial Ratios - Non Financial Sector

About the Company
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. 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 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	332.47	246.39
PBILDT	22.93	17.03
PAT	12.66	9.60
Overall gearing (times)	0.28	0.04
Interest coverage (times)	5.63	3.61

A: Audited

Furthermore, during Q1FY21, MGL reported TOI of Rs.43.51 crore with PAT of Rs.1.59 crore as against TOI of Rs.61.87 crore and PAT of Rs.3.99 crore reported in Q1FY20.

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB+; Stable (22-Nov-19) 2)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	-	-	-	1)CARE BBB+; Stable (22-Nov-19) 2)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	-	-	-	1)CARE A2 (22-Nov-19) 2)CARE A2 (03-Apr-19)	1)CARE A2 (03-Apr-18)	1)CARE A2 (12-Apr-17)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Ms. Nikita Goyal
Contact no.- +91-79-4026 5670
Email ID- nikita.goyal@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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.

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