CRISIL
Ratings

Rating Rationale

September 11, 2024 | Mumbai

Shiv Texchem Limited

Ratings upgraded to 'CRISIL BBB+/Stable/CRISIL A2'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.800 Crore (Enhanced from Rs.700 Crore)**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')**
Short Term Rating	**CRISIL A2 (Upgraded from 'CRISIL A3+')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Shiv Texchem Limited (STL; earlier known as Shiv Texchem Private Limited) to **'CRISIL BBB+/Stable/CRISIL A2'** from 'CRISIL BBB/Stable/CRISIL A3+'.

The upgrade reflects the overall improvement in the credit risk profile driven by a strong business risk profile backed by steady growth in scale of operations and improving financial risk profile. While revenues have increased to Rs 1536 crores for fiscal 2024 from Rs 1117 crores in fiscal 2023 mainly driven by healthy increase in volume sales along with continued addition of higher realization products, operating profits have ranged in between 3.0%- 4.0% over the last two years ended FY 2024 largely because of prudent risk mitigation policies. The revenues are further expected to grow by around 35%-40% in fiscal 2025 mainly due to the steady order flow from the customers driven by the healthy growth in the volumes and better realizations. Furthermore, the prudent risk mitigation policies including order backed inventory along with large product basket and wide customer profile limiting customer concentration in revenues should support the company maintain its operating margins around 3.5%-4% over the medium term leading to healthy net cash accruals.

The financial risk profile has also improved with steady accretion to the reserves and infusion of equity by promoters in the current fiscal FY 2024 leading to total outside liability to adjusted net worth (TOL/ANW) ratio sustaining below 2.5 times for the last four fiscal ended FY 2024. The same is further expected to improve on the back of healthy accretion to the reserves. The liquidity profile also remains adequate with sufficient net cash accruals against negligible repayment obligation which combined with unutilized working capital lines will support working capital requirements.

The rating continues to reflect STL's extensive experience of management in the specialty chemical trading industry along with established market position, prudent risk management practices, diversified customer base and established relationship with the suppliers and moderate financial risk profile. These strengths are partially offset by susceptibility to intense competition, and large working capital requirement.

Analytical Approach

Unsecured loans of Rs 53.91 crores estimated for fiscal 2024 extended by the promoters has been treated as 75% equity and 25% debt. These USL are expected to remain in the business.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoters and established market position:** STL benefits from the extensive experience of its promoters who have been in the chemicals trading industry for over three decades. This has helped them develop an understanding of business and industry dynamics and also establish healthy relationships with its clientele and suppliers. Backed by the long track record of operations and continuous product additions, the top line of the company has improved to Rs 1536 crores in fiscal 2024 from Rs 1117 crores in fiscal 2023. The scale is further expected to grow by around 35% to 40% in fiscal 2025 on the back of steady order flow from the customers and healthy growth in the volume sales along with better realizations. CRISIL Ratings believes STL will continue to benefit from the extensive industry experience of promoters and its established market position.

- **Prudent risk mitigation practices:** Order-backed inventory (~70% of total inventory) and large product basket products with no single product accounting for more than 10% to 15% of total sales mitigates price fluctuation risk related to the raw material prices. As a result, the operating margins of the company have sustained in the range of 3.0% to 4.0% for the last three years ended FY 2024 and is expected to remain around 3.5%-4% over the medium term. Furthermore, strong internal checks, limited customer concentration and established relationships with reputable clientele should support the company limit the risk of bad debts to some extent. Top 5 customers contributed around ~13% to total revenues in fiscal 2024 (10% in fiscal 2023). Prudent risk mitigation practices should support the company sustain its profitability amid increasing scale of operations and remains a key rating sensitivity factor.

- **Diverse customer base and established relationship with suppliers:** STL has a large customer base comprising of more than 600 customers across pharmaceuticals, resins & abrasives, paints & dyes, personal care/cosmetics, etc. Its customers include some of the well established players such as Gujarat Fluorochemicals Limited(CRISIL AA+/Stable/CRISIL A1+), Reliance Industries Limited (CRISIL AAA/Stable/CRISIL A1+), Jesons Industries Limited (CRISIL A-/Stable/CRISIL A2+), B.k. Sales Corporation (CRISIL A-/Stable/CRISIL A2+), Vinati Organics Limited etc. STL also has an established supplier network in domestic as well as international markets for procurement of products, providing flexibility and better bargaining power to the company in case of any supply disruptions. Established relationships with suppliers, diverse customer base and limited customer concentration in revenues will continue to support the business risk profile of the company.

- **Moderate financial risk profile:** The net worth of the company has improved to Rs 233 crores as on March 31, 2024, from Rs 187 crores as on March 31, 2023, led by the steady accretion to the reserves amidst the growing scale of operations. The capital structure remains moderate mainly due to the reliance on the outside debt for the working capital requirements leading to total outside liability to adjusted net worth ratio of 2.4 times as on March 31, 2024 (2.2 times as on March 31, 2023). Due to the moderate interest expenditure the debt protection measures are also above average as reflected in the interest cover of 3.1 times for fiscal 2024 and was around 2.4 times for fiscal 2023. The overall financial risk profile of the company is expected to improve over the medium term backed by the steady accretion to the reserves due to the growing scale of operations.

Weaknesses:

- **Susceptibility to intense competition:** Operating margins have remained at moderate level in fiscal 2024 of about 3.9% (3.3% in fiscal 2023) as the company diversified into more products, while experiencing price fluctuations in commodity chemicals. The prices of traded goods are volatile as they are linked to crude prices and demand scenario, and intense competition may constrain scalability, pricing power and profitability.

- **Working capital intensive operations:** STL's operations are working capital intensive as reflected in gross current assets (GCAs) of around 140-160 days for the past three fiscal ended FY 2024, driven by receivables of around 40-45 days and inventory of around 90 to 110 days. Debtors are moderate as they are required to provide credit of around 45-60 days to its customers while inventory requirements are necessitated by lead time of 45-50 days on imports and a diversified product basket. Further Storage facility is also provided by the company at various ports as per negotiated terms with the customers which adds to the inventory holding level. However, the inventory risk has been partially mitigated as around ~70% of the inventory remains order backed and have assured offtake from STL's customers. The working capital is being supported by average import creditors of around 60-75 days on procurements. CRISIL Ratings expects the working capital cycle to remain at a similar level over the medium term.

Liquidity: Adequate

STL has adequate liquidity driven by expected cash accruals of more than Rs 41 to 45 crore over medium term, against annual term debt obligation around Rs 4.5 crore in each fiscal 2025 and 2026. Cash and cash equivalents were around Rs 180 crore as on March 31, 2024; out of which around Rs 160 to Rs 165 crores was lien marked with remaining being unencumbered. Current ratio is healthy at 1.48 times as on March 31, 2024 (1.34 times a year ago). STL also has access to bank limits, utilized to the tune of 77% on an average over the 12 months ended July 2024. Liquidity remains further supported by the promoter's support in the form of USL and equity. CRISIL Ratings expects enhancement in bank limits, internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient for repayment obligations and incremental working capital requirements

Outlook: Stable

CRISIL Ratings believes expanding product portfolio and stable profitability along with extensive promoter experience will continue to support the business risk profile of STL

Rating sensitivity factors

Upward factors:

- Sustained growth in the revenues and sustenance of operating profitability leading to higher cash accruals of above Rs 60 crores.
- Sustained improvement in the financial risk profile while managing the working capital cycle.

Downward factors:

- Lower operating margins or decline in the scale of operations resulting in cash accruals below Rs 25 crores.
- Further stretch in working capital cycle or sustained deterioration in the financial risk profile

About the Company
STL was established in 1995 as proprietorship firm and later in 2005 it was converted into a private limited company. It is based in Mumbai and is engaged as trader and distributor of bulk chemicals such as sulphuric acid, acetone, phenol, methanol, etc. The company is promoted and managed by Mr. Shyam Sundar Chokhani, Mr. Hemanshu Chokhani and Mr. Vikas Pavankumar.

Key Financial Indicators

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	1536	1,118.6
Reported profit after tax	Rs crore	30.05	16.05
PAT margins	%	1.96	1.43
Adjusted Debt/Adjusted Net worth	Times	1.10	1.42
Interest coverage	Times	3.18	2.42

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Cash Credit	NA	NA	NA	227.00	NA	CRISIL BBB+/Stable
NA	Letter of Credit	NA	NA	NA	199.00	NA	CRISIL A2
NA	Non-Fund Based Limit	NA	NA	NA	63.00	NA	CRISIL A2
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	28.00	NA	CRISIL BBB+/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	123.00	NA	CRISIL A2
NA	Working Capital Demand Loan	NA	NA	NA	80.00	NA	CRISIL BBB+/Stable
NA	Working Capital Facility	NA	NA	NA	80.00	NA	CRISIL BBB+/Stable

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	415.0	CRISIL BBB+/Stable	08-05-24	CRISIL BBB/Stable	28-08-23	CRISIL BBB/Stable	04-11-22	CRISIL BBB/Positive		--	--
			--		--	21-08-23	CRISIL BBB/Stable	30-06-22	CRISIL BBB/Positive		--	--
			--		--		--	07-06-22	CRISIL BBB/Positive		--	--
			--		--		--	31-05-22	CRISIL BBB/Positive		--	--

Non-Fund Based Facilities	ST	385.0	CRISIL A2	08-05-24	CRISIL A3+	28-08-23	CRISIL A3+	04-11-22	CRISIL A3+		--	--
			--		--	21-08-23	CRISIL A3+	30-06-22	CRISIL A3+ / CRISIL BBB/Positive		--	--
			--		--		--	07-06-22	CRISIL A3+ / CRISIL BBB/Positive		--	--
			--		--		--	31-05-22	CRISIL A3+ / CRISIL BBB/Positive		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	67	HDFC Bank Limited	CRISIL BBB+/Stable
Cash Credit	50	Axis Bank Limited	CRISIL BBB+/Stable
Cash Credit	30	IndusInd Bank Limited	CRISIL BBB+/Stable
Cash Credit	30	Union Bank of India	CRISIL BBB+/Stable
Cash Credit	20	State Bank of India	CRISIL BBB+/Stable
Cash Credit	30	ICICI Bank Limited	CRISIL BBB+/Stable
Letter of Credit	13	CSB Bank Limited	CRISIL A2
Letter of Credit	80	Citi Bank	CRISIL A2
Letter of Credit	48	YES Bank Limited	CRISIL A2
Letter of Credit	30	State Bank of India	CRISIL A2
Letter of Credit	28	Punjab National Bank	CRISIL A2
Non-Fund Based Limit	63	HDFC Bank Limited	CRISIL A2
Proposed Fund-Based Bank Limits	26	Not Applicable	CRISIL BBB+/Stable
Proposed Fund-Based Bank Limits	2	Not Applicable	CRISIL BBB+/Stable
Proposed Non Fund based limits	100	Not Applicable	CRISIL A2
Proposed Non Fund based limits	23	Not Applicable	CRISIL A2
Working Capital Demand Loan	30	CSB Bank Limited	CRISIL BBB+/Stable
Working Capital Demand Loan	50	Kotak Mahindra Bank Limited	CRISIL BBB+/Stable
Working Capital Facility	35	The Federal Bank Limited	CRISIL BBB+/Stable
Working Capital Facility	45	IDFC FIRST Bank Limited	CRISIL BBB+/Stable

Criteria Details

Links to related criteria
Criteria for rating trading companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach to Financial Ratios
CRISILs Criteria for rating short term debt

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