



Rating Rationale

29Oct2020

Archit Organosys Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 42.27 Crores of Archit Organosys Limited. (Hereinafter referred as “AOL” or the “Company”)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (June,2020)	Present
Fund Based	40.03	37.52	Long Term /Short term	BWR BB-Stable Issuer Not Cooperating*	BWR BB-Stable (Reaffirmation) Removal from “Issuer Non Cooperation” Category
Non-fund Based	4.75	4.75	Short Term	BWR A4 Issuer Not Cooperating*	BWR A4 (Reaffirmation) Removal from “Issuer Non Cooperation” Category
Total	44.78	42.27	INR Forty Two Crores & Twenty Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING: REAFFIRMATION OF BB- (STABLE)/A4 & REMOVAL FROM THE “ISSUER NOT COOPERATING” CATEGORY.

RATING ACTION / OUTLOOK

BWR has considered the standalone financials of the Company and essentially relied upon the audited financial statements upto FY20, Provisional financials of Q1FY21, Projected financials upto FY23 and publicly available information and clarifications provided by the entity’s management.

The rating reaffirmation draws strength from product diversities in multiple industries, a comfortable net worth base, low gearing and the stated proposal to raise the capital by converting the share warrants to preference shares by the end of FY21. The Company also benefits from



vast business experience of about two decades of the promoters in the line of organic chemical industry. The ratings are, however, constrained by loss incurred on account of fluctuations in raw material prices and foreign exchange rates. Business operations are exposed to the environmental issues due to emission/disposal of chemical waste and government policies related to pollution control, and competitive and working capital intensive nature of industry.

BWR takes note of the impact of the COVID-19 pandemic on the business and financial risk profiles for FY21. BWR will continue to monitor the developments in this regard and analyse the impact, if any, on the company's credit profile.

The business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Extensive experience of promoters and longstanding existence in the industry**—Promoters have extensive experience of nearly three decades in the line of chemical industry and the longstanding existence of the Company since 1989 has benefitted to build the strong relationship with its customers and suppliers.
- **Diversified portfolio and revenue:** The Company's operation is a mix of manufacturing and trading, and caters to various industries like Pharmaceuticals, agricultural chemicals, cosmetic surfactants, oil drilling chemicals, plastic additives etc. 33-44% of the total sales is being generated from the trading activity. Furthermore, overseas markets, including the USA, South Korea, and Turkey, contribute around 80% to the total revenue. The Company has reported a total operating income of Rs. 76.69 Crs in FY20 as against Rs. 84.00 Crs in FY19. In the first quarter of fiscal 2021, the Company clocked a turnover of Rs 12.25 Crs and net profit at Rs 0.84 Crs. Going further, an effective business strategy and a diverse portfolio helps to insulate from any sector specific volatility.
- **Comfortable net worth base and low gearing :** Despite the loss incurred in the last two fiscal years, the net worth of the company has remained relatively comfortable at Rs. 34.08 Crs as on 31st March, 2020 against a total debt of Rs. 33.29 Crs. As a result the Gearing level has reduced to 0.98x in FY20 as compared to 1.07x in FY19 on the back of timely repayment of term liabilities. Further, on 30th September, 2020 the company has proposed to issue and convert the share warrants into preference shares to the tune of Rs. 5.50 crs by the end of FY21. It is anticipated that gearing level will remain low over the

medium term.

Credit risks:

- **Susceptibility of profit to volatility in raw material prices and weak debt coverage metrics:** The Company has incurred a loss of Rs. 0.80 Crs in FY20 as against a net loss of Rs. 4.72 Crs in FY19. As a result, the Debt protection metrics are weak with DSCR at 0.50x and ISCR at 1.14x in FY20. During FY19, the Company's Bhavnagar based unit was shut for two months due to environmental issues, and later the unit obtained the No Objection Certificate from Gujarat Pollution Board Corporation (GPCB) mentioning that it is facilitating with precautionary measures. Furthermore, AOL's profitability is weak on account of trading and the high working capital intensive nature of operations. The margins remain susceptible to adverse fluctuations in prices of raw material and foreign exchange rates. Although, the risk is partly mitigated through a forward option undertaken by the entity. The ability of AOL to scale up its operations and margins by focusing on manufacturing activities and generating the export sales strategically will be the key rating sensitivity. AOL is also strengthening its manufacturing and reducing its trading activity, in order to improve margins.
- **Exposure to stringent regulatory norms:** The Company is also required to follow and maintain the norms laid down by Gujarat Pollution Control Board (GPCB) for discharge of its effluents. The Company continues to comply with such norms, as otherwise it would be a costly affair for AOL ; however, any changes in the policies may adversely constrain the business.
- **Intense competition in the highly fragmented Chemical industry:** The Chemical industry being highly fragmented and characterized by intense competition from various large and small players. The increased competition limits the bargaining power of AOL.

RATING SENSITIVITIES

Positive:

- Substantial growth in revenue and profitability
- Positive cash accruals while maintaining working capital cycle
- Successful conversion of share warrants to preference shares by the end of FY21
- Debt protection metrics level rise upto 1.50X in FY21 will be key rating positives.



Negative:

- Lower than expected growth in operating income and profitability
- Deterioration in gearing above 1x and weak debt coverage metrics
- Negative cash accruals along with stressed liquidity profile

LIQUIDITY POSITION: Stretched

Liquidity is stretched due to loss incurred in FY9 & FY20 along with insufficient cash generation against the current maturity of long term debt and stressed conversion cycle. Average cash credit utilization was around 75% in the last 8 months ending on 31Sept2020 as the unit was not being operated at full capacity. Receivable days are elongated from 100 to 122 days in the last two fiscals. As a result, the payable days are stretched from 89 to 121 days. Current ratio is low at 0.85x in FY20 and 0.99x in FY19. However, the interest cost which accumulated during the 6 months of moratorium benefit has been repaid by the company and covid emergency line of credit of Rs. 3.45 Crs have been availed from the lender. This may support the liquidity in the near term.

COMPANY PROFILE

Archit Organosys Limited, formerly known as Shri Chlochem Limited, is a BSE listed Company incorporated in 1989 at Ahmedabad, Gujarat. The Company is engaged in manufacturing and trading of organic chemicals and derivatives such as Monochloroacetic Acid, Sodium Chloroacetate, Ethyl Acetate, Acetic Acid, Acetic Anhydride, Linear Alkyl Benzene, etc. AOL has a manufacturing unit at Ahmedabad ,Gujarat with a production capacity of 6000 MTPA and another plant at Bhavnagar, Gujarat with an installed capacity of 3000 MTPA.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY20	FY19
Result Type		Audited	Audited
Operating Income	₹ in Cr	76.69	84.00
EBITDA	₹ in Cr	3.63	(2.85)
Net Loss	₹ in Cr	(0.80)	(4.72)

Tangible net worth	₹ in Cr	34.08	34.87
Debt/Tangible net worth	Times	0.98	1.07
Current Ratio	Times	0.85	0.99

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	2June2020	22Jan2019	2018
Fund Based	Long Term	37.52	BWR BB-Stable (Reaffirmation) Removal from “Issuer Non Cooperation” Category	BWR BB-Stable Issuer Not Cooperating*	BWR BB-(Stable)	Not Rated
Non Fund Based	Short Term	4.75	BWR A4 (Reaffirmation) Removal from “Issuer Non Cooperation” Category	BWR A4 Issuer Not Cooperating*	BWR A4	Not Rated
Total		42.27	INR Forty Two Crores & Twenty Seven Lakhs Only			

*The issuer did not cooperate; based on the best available information.

Rating not reviewed advisory issued on 23rd January, 2020.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

Analytical Contacts	Investor and Media Relations
<p>Kunjil Dabhi Ratings Analyst B :+91 79 66174046 / 47 kunjil.r@brickworkratings.com</p> <p>Vidya Shankar Senior Director - Ratings B :+91 80 4040 9940 vidyashankar@brickworkratings.com</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

Archit Organosys Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	Union Bank of India	Fund Based : Term Loans Cash Credit FDBP/FUDBP	22.02 9.50 6.00	- - -	37.52
2	Union Bank of India	Non Fund Based : Inland/Import letter of credit Letter of Guarantee	- -	4.00 0.75	4.75
TOTAL					42.27

Total INR Forty Two Crores & Twenty Seven Lakhs Only.

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