

Press Release

Rathi Dye Chem Private Limited

06 April, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 12.25 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 12.25 crore bank facilities of Rathi Dye Chem Private Limited. The outlook is '**Stable**'.

Rathi Dye Chem Private Limited (RDCPL) was established in the year of 1978. The company is engaged in manufacturing of disperse dyes and solvent dyes. Disperse Dyes are used in Textiles, Clothes (Terricot, Terriwool) & Solvent dyes are used in Plastics, Glass Coating, ink manufacturing industries. The manufacturing facility is located at Roha, Raigad District with an installed capacity of 60TPM and 35 TPM for disperse dye and for solvent dyes respectively. 60 per cent of the total revenue comes from the manufacturing of solvent dyes. RDCPL's realise its 90% revenue by catering to the various suppliers in different industry such as textile, paper & printing, Leather, plastic and other industry. Company realises the rest 10% revenue by exporting to countries like Italy, Japan, Egypt and Middle East.

Key Rating Drivers

Strengths

• Experienced management and long track record of operation

RDCPL is having a long track record of operations of almost four decades. Mr. Harinarayan Rathi, the chairman of the company is a Bachelor of Science in Chemistry from United States of America. Mr. Sunil Harinarayan Rathi, the managing director of RDCPL is a degree holder in Industrial Engineering from USA and a doctorate in entrepreneurship. Mr. Nilesh Harinarayan, who is the director, is a Master of Science in Chemistry from USA. The top management is ably supported by a well-qualified and experienced team of second line of management. SMERA believes that the extensive experience of the promoters will strengthen the business of the company over the medium term.

• Comfortable financial risk profile

RDCPL's comfortable financial risk profile marked by moderate network of Rs. 15.21crore in FY 17, comfortable gearing of 1.02 times and healthy interest coverage ratio at 3.12 and debt service coverage ratio stands at 2.29 times in FY17. The NCA/TD stands at 0.13 times in FY 17. The company is going to expand its current capacity; the cost of total project would be Rs.7.93 crore and expected to be funded by fresh term loan from the bank of Rs.5.95 crore. However, going forward the financial risk profile of the company stands comfortable over the medium term.

• Diversified product base & customer base

The company has a diversified product base of various types of disperse dyes and solvent dyes for variant industry, such as Textile, Paper and Printing, Plastic, Leather and others. Also, approximately 90% of revenues are derived from domestic markets from diversified customer base. Balance revenue is generated from exports to the countries like Italy, Japan, Egypt and Middle East countries.

Weaknesses

• Working capital intensive nature of operation

RDCPL's operations are working capital intensive by nature which is marked by gross current asset day of 187 during FY17 as compare to 180 days in FY16. This necessitates working capital requirement as major funds gets blocked in inventory and debtor. Inventory and Debtor days are high and stand at 74 and 104 days respectively in FY17 as compare to 71 and 88 days in FY16.

• Profit margin susceptible to raw material costs

Operating margins are highly susceptible to raw material prices. Also, the company imports approximately 60%-70% from the Chinese markets, price change in the exporter country i.e. China would directly impact the raw material prices of RDCPL. This is evident by decrease in its margins from 9.12 per cent in FY16 to 7.76 per cent in FY17, mainly due to rise in raw material cost. Net profitability margins also declined from 3.34 per cent in FY17 to 1.56 per cent for FY16.

• Highly fragmented and competitive nature of operation

RDCPL's operates in highly fragmented industry wherein the presence of large number of players in the unorganized sector limits the bargaining power with customers.

Analytical Approach

SMERA has considered the standalone financials of Rath Dye Chem Private Limited

Outlook: Stable

SMERA believes RDCPL will maintain a stable business risk profile in the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining better profit margins and improves its working capital management. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	58.75	48.38	47.71
EBITDA	Rs. Cr.	4.56	4.41	3.69
PAT	Rs. Cr.	0.91	1.62	1.02
EBITDA Margin	(%)	7.76	9.12	7.74
PAT Margin	(%)	1.56	3.34	2.15
ROCE	(%)	13.12	16.69	25.78
Total Debt/Tangible Net Worth	Times	1.02	0.59	0.59
PBDIT/Interest	Times	3.12	3.84	3.16
Total Debt/PBDIT	Times	3.15	1.77	1.91
Gross Current Assets (Days)	Days	187	180	170

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Jan-2017	Cash Credit	Long Term	INR 6	SMERA BBB- / Stable
	Cash Credit	Long Term	INR 6	SMERA BBB- / Stable
	Bank Guarantee	Short Term	INR 0.25	SMERA A3

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	SMERA A3

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ABOUT SMERA

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