

Press Release

Rathi Dye Chem Private Limited

June 26, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

RDPL was established in the year 1978 by Mr. Harinarayan Rathi. RDPL is engaged in manufacturing of disperse dyes and solvent dyes. Disperse dyes find their application in Textiles, Clothes (Terricot, Terriwool) and solvent dyes in Plastics, glass coating and ink manufacturing industries. The manufacturing facility is located at Roha in Raigad District (Maharashtra) with an installed capacity of 60 TPM and 35 TPM for disperse dye and solvent dyes, respectively. RDPL caters to various industries such as textile, paper & printing, Leather and plastic among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RDPL to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

RDPL has a long track record of operations of around four decades. Mr. Harinarayan Rathi, the Chairman of the company, has been involved with the company since inception. Mr. Sunil Harinarayan Rathi, the current Managing Director, is a degree holder in Industrial Engineering and holds a doctorate in entrepreneurship. Mr. Sunil Rathi holds experience of more than two decades. Mr. Nilesh Harinarayan, who is one of the Directors, holds Masters of Science in Chemistry from USA. The top management is ably supported by a well-qualified and experienced team of second line of management. The experience of the management has helped RDPL in improving operating profitability as reflected by EBITDA margin of 10.31 percent in FY2019 (Provisional) as compared to 8.65 per cent in FY2018 and 7.76 per cent in FY2017.

• **Comfortable financial risk profile**

The financial risk profile of RDPL is comfortable marked by moderate net worth, healthy debt protection measures and low gearing. The net worth stood at Rs.43.19 crore as on 31 March, 2019 (Provisional) as against Rs.39.61 crore as on 31 March, 2018. The net worth is inclusive of Rs.2.70 crore unsecured and subordinated loans by the promoters to support the incremental working capital requirements. RDPL has followed a conservative financial policy with a significant part of the RDPL's debt coming from promoters and their associates. The gearing of RDPL stood at 0.52 times as on March 31, 2019 (Provisional) as compared to 0.43 times in FY2018. Total debt of Rs.22.61 crore as on March 31, 2019 (Provisional) includes Rs.6.06 crore unsecured loans from the promoters, Rs.3.64 crore term loans from bank and Rs.12.91 crore working capital borrowings. Interest Coverage Ratio (ICR) has improved to 4.07 times in FY2019 (Provisional) and 3.08 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood healthy at 0.83 times as on 31 March, 2019 (Provisional) as against 0.78 times as on 31 March, 2018.

Acuité believes that the financial risk profile of RDPL will continue to remain comfortable over the medium term on account of conservative financial policy and moderate capital expenditure plans.

Weaknesses

- **Profitability susceptible to volatility in raw material prices**

the profitability in the Chemical Industry is highly susceptible to volatility in raw material prices. Also, the company imports approximately 60 percent of their raw material requirements from the Chinese markets, thus price change in the exporter country i.e. China would directly impact the raw material prices of RDPL.

- **Highly fragmented industry and moderate scale of operations**

The scale of operations of RDPL is moderate marked by revenue of Rs.78.37 crore in FY2019 (Provisional) compared to Rs.57.79 crore in FY18. Further, RDPL operates in a highly fragmented chemical industry with the presence of large number of players in the organised as well as unorganised sector. This limits the bargaining power of RDPL with customers. However, the long-standing customer relationships of RDPL's management in the industry moderates this risk to an extent.

Liquidity position:

RDPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. RDPL generated cash accruals of Rs. 2.03-5.32 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.06-0.72 crore over the same period. The cash accruals of RDPL are estimated to remain around Rs.5.6-9.1 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.5 crore per annum. RDPL had moderate reliance on working capital borrowings, the cash credit limit remains utilised at ~60 percent during the last 6 months period ended May 2019. RDPL maintained unencumbered cash and bank balances of Rs.0.56 crore as on March 31, 2019 (Provisional). The current ratio of RDPL stood moderate at 1.51 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of RDPL is likely to remain adequate over the medium term on account of growing cash accruals.

Outlook: Stable

Acuité believes that RDPL 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 its profitability and 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	78.37	57.79	58.75
EBITDA	Rs. Cr.	8.08	5.00	4.56
PAT	Rs. Cr.	3.64	1.70	0.91
EBITDA Margin	(%)	10.31	8.65	7.76
PAT Margin	(%)	4.65	2.95	1.56
ROCE	(%)	10.27	8.26	13.12
Total Debt/Tangible Net Worth	Times	0.52	0.43	1.02
PBDIT/Interest	Times	4.07	3.08	3.12
Total Debt/PBDIT	Times	2.75	3.40	3.15
Gross Current Assets (Days)	Days	157	202	187

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Apr-2018	Cash Credit	Long Term	6.00	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Reaffirmed)
31-Jan-2017	Cash Credit	Long Term	6.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Assigned)

***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	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-4929-40 rating.desk@acuite.in
Sushmita Murai Analyst - Rating Operations Tel: 022-49294033 sushmita.murai@acuiteratings.in	

About Acuité Ratings & Research:

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