

Press Release

Rathi Dye Chem Private Limited

September 18, 2020



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the 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 the manufacturing of dispersing 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 100 TPM and 45 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 was established in 1978 and is engaged in manufacturing of disperse dyes and solvent dyes. The company has an established track record of over four decades in the industry. The company is managed by Mr. Harinarayan Rathi, who has been involved with the company since inception and possess over four decades of experience in the said industry. Mr. Harinarayan Rathi is well supported by the second generation, Mr. Sunil Harinarayan Rathi, who is the current Managing Director of the company and possess over two decades of experience in the said industry. The top management is ably supported by a well-qualified and experienced team of the second line of management. The company also caters to different industries such as textile, clothes, plastic, ink industry and others. Acuité believes that the company will benefit from its experienced management which will help to create long-standing relations with customers and suppliers.

- **Comfortable financial risk profile**

The company's financial risk profile is marked by moderate net worth, low gearing (debt-equity) and healthy debt protection metrics. The tangible net worth of the company stood at Rs.49.67 crore (includes quasi equity of Rs.2.70 crore) as on 31 March, 2020 (Provisional) as compared to Rs.42.87 crore (includes quasi equity of Rs.2.70 crore) as on 31 March, 2019. The total debt of Rs.21.45 crore as on 31 March, 2020 (Provisional) includes long term borrowings of Rs.2.71 crore, short term borrowing of Rs.10.95 crore and unsecured loans from directors of Rs.7.79 crore. The gearing (debt-equity) stood comfortable at 0.43 times as on 31 March, 2020 (Provisional) as compared to 0.53 times as on 31 March, 2019. The Interest Coverage Ratio stood healthy at 6.04 times for FY2020 (provisional) as against 4.02 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 3.43 times in FY2020 (Provisional) as against 2.95 times in FY2019. Total Outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.79 times as on 31 March, 2020 (Provisional) as compared to 0.86 times as on 31 March, 2019. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.47 times for FY2020 (Provisional). 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

• Working capital intensive operations

The operations of the company stood working capital intensive in nature marked by high Gross Current Assets (GCA) days of 155 days in FY2020 (Provisional) and 156 days in FY2019. This is mainly due to debtor days of around 68 days in FY2020 (Provisional) as against 87 days in FY2019. The inventory days also stood at 86 days in FY2020 (Provisional) as against 64 days in FY2019. The average bank limit utilisation stood at ~52.00 percent for the past eight months ending August 2020. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Profitability susceptible to volatility in raw material prices

The profitability in the Chemical Industry is highly susceptible to volatility in raw material prices. Therefore the operating profit margins of the company is susceptible to raw material price fluctuation. Further, RDPL operates in highly fragmented chemical industry with the presence of a large number of players in the organised as well as unorganised sector. This limits the bargaining power of RDPL with customers and ultimately affects the margin.

Rating Sensitivities

- Sustaining existing scale of operations while maintaining profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants:

- Maintain quasi equity of Rs.2.70 crore

Liquidity Position: Adequate

RDPL has an adequate liquidity position marked by healthy net cash accruals to its maturing debt obligations. RDPL generated cash accruals of Rs.3.00-10.00 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.30-1.20 crore over the same period. The cash accruals of RDPL are estimated to remain around Rs.8.60-11.60 crore during 2021-23, while its repayment obligations are estimated to be around Rs.0.60-0.90 crore per annum. The working capital cycle of the company is intensive, marked by Gross Current Assets (GCA) days of 155 days in FY2020 (Provisional) and 156 days in FY2019. RDPL had moderate reliance on working capital borrowings; the cash credit limit remains utilised at ~52 percent during the last 8 months period ended August 2020. RDPL maintained unencumbered cash and bank balances of Rs.1.12 crore as on March 31, 2020 (Provisional). The current ratio of RDPL stood moderate at 1.56 times as on March 31, 2020 (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' outlook over the medium term owing to its experienced management and established operational track record. The outlook may be revised to 'Positive' in case the company registers more than expected growth in revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in working capital leading to deterioration in the financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	84.11	78.41
PAT	Rs. Cr.	7.37	3.17
PAT Margin	(%)	8.76	4.04
Total Debt/Tangible Net Worth	Times	0.43	0.53
PBDIT/Interest	Times	6.04	4.02

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

CRISIL, vide its press release dated May 07, 2019 had denoted the rating of Rathi Dye Chem Private Limited (RDPL) as 'CRISIL BB+/Stable/A4+ (Issuer Not Cooperating)' on account of lack of adequate information

required for monitoring of ratings.

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-June-2019	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)
06-April-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	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3 (Reaffirmed)

@Sublimit for cash credit of Rs.6.00 crore: Letter of credit of Rs.3.00 crore

#Sublimit for cash credit of Rs.6.00 crore: Import Documentary Credit Facility of Rs.3.00 crore, Buyers Credit of Rs.3.00 crore, Overdraft of Rs.6.00 crore, Working Capital Loan of Rs.3.00 crore, Pre-Shipment Seller Loan of Rs.2.00 crore and Post Shipment Seller Loan of Rs.2.00 crore.

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About Acuité Ratings & Research:

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