

Press Release

Rathi Dye Chem Private Limited

December 15, 2021



Rating Reaffirmed

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.25	0.25		ACUITE A3 Reaffirmed
Bank Loan Ratings	12.00	12.00	ACUITE BBB- Positive Reaffirmed Stable to Positive	
Total	-	12.25	-	-

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 Cr. bank facilities of Rathi Dye Chem Private Limited (RDCPL). The outlook is revised to '**Positive**' from '**Stable**'.

Rationale for revision in outlook

The revision in outlook is on account of the expected improvement in RDCPL's financial and credit profile, commensurate with healthy net cash accruals on the back of higher realizations and sustenance of coverage indicators over the medium term. The financial health of RDCPL is driven by moderate net worth improving on a Y-O-Y basis, lower reliance on bank lines, and the company achieving more than 80 percent of sales in (FY2022) YTD November 2021 of the full-year FY2021 sales.

About the Company

Established in 1978 by Mr. Harinarayan Rathi, Rathi Dye Chem Private Limited (RDCPL) is a Pune based entity engaged in the manufacturing of dispersing dyes and solvent dyes. Disperse Dyes have their application in Textiles, Clothes (Terricot, Terriwool) and solvent dyes in Plastics, Glass coating and Ink production industries. RDCPL has a manufacturing facility located at Roha in Raigad District (Maharashtra) with an installed capacity of 100 TPM and 45 TPM for dispersing dye and solvent dyes, respectively. RDCPL caters to various industries such as textile, paper & printing, leather and plastic, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations supported by experienced management and diversified customer profile

RDCPL was established in 1978 and is engaged in the manufacturing of dispersed 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 possesses 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 possesses 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. Thus ensuring diversification in revenue profile and stability in revenues.

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

RDCPL has a comfortable financial risk profile marked by moderate net worth, low gearing, and healthy coverage indicators. The tangible net worth of the company stood at Rs.52.64 crore as on March 31, 2021, as compared to Rs.46.82 crore as on March 31, 2020. The increase in net worth is attributed to the accretion of profits to reserves. The total debt of Rs.19.78 crore as on March 31, 2021 consists of long-term debt, fund-based working capital limits, and unsecured loans from the directors of the entity. Further, the Gearing (Debt to Equity) stood comfortable at 0.38 times as on March 31, 2021, as compared to 0.52 times as on March 31, 2020.

The Interest Coverage Ratio (ICR) stood healthy at 7.02 times for FY2021 as against 6.03 times for FY2020 while the Debt Service Coverage Ratio (DSCR) stood at 3.73 times in FY2021 as against 3.42 times in FY2020. Total Outside Liabilities/Total Net Worth (TOL/TNW) has also shown improvement to 0.75 times as on March 31, 2021, as compared to 0.89 times as on March 31, 2020. Further, the Net Cash Accruals to Total Debt (NCA/TD) has also shown marginal improvement at 0.49 times in FY2021 as against 0.42 times in FY2020.

Acuite believes the financial risk profile of RDCPL is expected to remain comfortable in the near to medium term while improving on a Y-O-Y basis.

Weaknesses

Deterioration in working capital management

RDCPL's working capital management has deteriorated on a Y-O-Y basis while remaining intensive, marked by deterioration in Gross Current Asset (GCA) of 195 days in FY2021 as against 153 days in FY2020. Deterioration in GCA is on account of an increase in its debtors' collection period in FY2021 as against FY2020. The debtors' collection period stood at 94 days in FY2021 as against 68 days in FY2020. Further, the creditors' payment period has also increased to 84 days in FY2021 as against 54 days in FY2020. The increase in the debtors' collection period and creditors' payment period in FY2021 can be attributed to the impact of covid-19.

Nonetheless, RDCPL has been able to keep the inventory holding period stable at 84 days in FY2021 as against 86 days in FY2020. Further, the average bank limit utilization of 50-60 percent of the working capital limits for the past 7-month period ended October 2021 is expected to provide for additional WC requirements.

Acuite believed the working capital management of RDCPL is expected to stabilize in the near to medium as the impact of covid-19 subsides.

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, RDCPL operates in highly fragmented chemical industry with the presence of a large number of players in the organized as well as unorganized sector. This limits the bargaining power of RDC with customers and ultimately affects the margin. While the chemical prices have shown a positive trend, stability of the price will be a key to maintaining the margins.

Liquidity Position: Adequate

RDCPL has an adequate liquidity position marked by healthy Net Cash Accruals (NCA) vis-à-vis its maturing debt obligations (CPLTD). RDCPL generated net cash accruals of Rs.9.76 Cr. while its maturing debt obligations stood at less than Rs.1.00 Cr. in FY2021. The net cash accruals of RDCPL are expected to be upwards of Rs.10.00 Cr. during the FY2022-24 period, while its repayment obligations are expected to be in the same range as FY2021.

While working capital management has deteriorated on a Y-O-Y basis marked by Gross Current Asset (GCA) of 195 days in FY2021 as against 153 days in FY2020. The reliance on working capital limits remains in the range of 50-60 percent for the 7-month period ended October 2021 as informed by the banker. RDCPL has unencumbered cash and bank balances of Rs.0.08 Cr. as on March 31, 2021, while maintaining the current ratio of 1.45 times as on March 31, 2021.

Acuite believes the NCA to CPLTD is expected to remain healthy in the absence of any additional debt-funded capex.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material covenants

None

Outlook: Stable

Acuité has revised the outlook on the company's rated facilities to 'Positive' on account of the expected improvement in RDCPL's financial and credit profile, commensurate with better net cash accruals on back of improvement in realizations and sustenance of coverage indicators over the medium term. The impact of COVID-19 on the operating performance of RDCPL is likely to be minimal in FY2022 on account of the company's intrinsic strength. The rating may be upgraded once the business environment normalizes along with RDCPL registering higher-than-expected growth in revenues, margins, and expected performance from the recently executed capital expenditure. The outlook may be revised to 'Stable' if the company is unable to sustain its growth in revenues, margins, and expected performance from the recently executed capital expenditure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	71.93	83.98
PAT	Rs. Cr.	6.44	7.33
PAT Margin	(%)	8.95	8.73
Total Debt/Tangible Net Worth	Times	0.38	0.52
PBDIT/Interest	Times	7.02	6.03

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

CRISIL vide its press release dated October 27, 2021, has classified the rating of Rathi Dye Chem Private Limited to 'CRISIL B; 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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Sep 2020	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)
26 Jun 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 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	0.25	ACUITE A3 Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	6.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
HSBC	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	6.00	ACUITE BBB- Positive Reaffirmed Stable to Positive

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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