

Press Release

Rathi Dye Chem Private Limited

February 01, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	ACUITE BBB- Stable Reaffirmed Positive to Stable	-
Bank Loan Ratings	0.25	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	12.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 '**Stable**' from '**Positive**'.

Rationale for the rating

The revision in the outlook is majorly on account of deterioration in the operating performance of the company reflected by degrowth of ~20 percent YoY in revenue from operations during 9MFY2023 (April – Dec'22) compared against same period last year. The decline in revenues is majorly on account of lower sales volumes led by reduction in production owing to rise in raw material costs. The revision in outlook also factors in the expected deterioration in operating performance of the company in FY2023 and will likely remain below Acuite projections for the same period. Also, operating profit margins of the company remain volatile and susceptible to raw material price fluctuations. Nonetheless, the rating also takes into account the established track record of operations with experienced management, comfortable financial risk profile and adequate liquidity position of the company.

About the Company

Established in 1978 by Mr. Harinarayan Rathi and is well supported by the second generation, Mr. Sunil Harinarayan Rathi, who is the current Director of the company, 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. Disperse Dyes have their application in Textiles, Clothes (Terricot, Terriwool) and solvent dyes in Plastics, Glass coating, Ink production industries, Granite, Decorative things used in saree, etc.

Analytical Approach

Acuite 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.

Acuite 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 financial risk profile of the company stood comfortable, marked by moderate net worth, low gearing (debt-equity) and moderate debt protection metrics. The tangible net worth stood at Rs.61.64 crore as on 31 March 2022 as against Rs.52.64 crore as on 31 March, 2021. The total debt of the company stood at Rs.28.67 crore which includes short-term debt of Rs.13.05 crore, long-term debt of Rs.0.76 crore, unsecured loans of Rs.14.14 crore and CPLTD of Rs.0.71 crore as on 31 March, 2022. The gearing (debt-equity) stood at 0.47 times as on 31 March 2022 as compared to 0.38 times as on 31 March, 2021. Interest Coverage Ratio stood at 8.84 times for FY2022 as against 7.02 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 5.40 times in FY2022 as against 3.73 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 0.74 times as on 31 March, 2022 as against 0.75 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.46 times for FY2022 as against 0.49 times for FY2021.

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

>Intensive working capital management

The working capital management of the company is intensive marked by GCA days of 170 days in FY2022 as against 195 days in FY2021. The debtor days stood at 101 days in FY2022 as against 94 days in FY2021. The company generally gives a credit period of 90 days to its customers. The Creditor days stood at 58 days in FY2022 as against 84 days in FY2021. However, the company generally allows a credit period of 60 days from its suppliers. The inventory days stood at 66 days in FY2022 as against 84 days in FY2021. The company generally maintains an inventory holding period of 45-50 days on average. Further, the average bank limit utilization of 75-80 percent of the working capital limits for the past 7-month period ended October 2022 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 term.

>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. Till FY2022, the company's operating margins remained stagnant i.e., ~17%. Further more, the company's operating margins is expected to deteriorate in near term due to volatility in raw material prices as reflected by decline in margins to ~14% in 9MFY2023

(provisional). Also, the company is not able to pass on the price to its customers. 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.

Rating Sensitivities

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

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is adequate, marked by healthy net cash accruals against its maturity debt obligations. The company generated net cash accruals in the range of Rs.9.76-Rs.13.26 Crore from FY 2020- 2022 against its maturity repayment obligations in the range of Rs.0.70-Rs.1.18 crore in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs.9.56-11.84 crores against the maturing repayment obligations of Rs.1.07-2.14 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 170 days in FY2022 as against 195 days in FY2021. The average of utilization of the working capital facilities stood at 75%-80% per cent for past 07 months ended October 2022. The company maintains unencumbered cash and bank balances of Rs.0.32 crore as on March 31, 2022. The current ratio stands at 1.84 times as on March 31, 2022 as against 1.45 times as on 31 March, 2021.

Acuite believes the liquidity position of the company will continue to remain adequate on account of adequate net cash accruals against matured debt obligations over near to medium term.

Outlook: Stable

Acuite has revised the outlook of RDCPL from 'Positive' to 'Stable' due to expected deterioration in the operating performance of the company reflected by expected decline in revenue from operations and profitability near term. The outlook may be revised to 'Positive' in case of improvement in revenues and profitability of the company followed by improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenues and deterioration in profitability margins or liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	105.82	71.93
PAT	Rs. Cr.	9.77	6.44
PAT Margin	(%)	9.23	8.95
Total Debt/Tangible Net Worth	Times	0.47	0.38
PBDIT/Interest	Times	8.84	7.02

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

None.

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Dec 2021	Secured Overdraft	Long Term	6.00	ACUITE BBB- Positive (Reaffirmed)
	Bank Guarantee	Short Term	0.25	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB- Positive (Reaffirmed)
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)

Annexure - Details of instruments rated

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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