Press Release

Atext Chemical Industries

October 30, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 5.87 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+' (read as ACUITE B plus)** and short term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs. 5.87 crore bank facilities of Atext Chemical Industries. The outlook is **'Stable'**.

ACI initially set up as a partnership concern in 1990, later got converted to a proprietorship concern headed by Mr. Bhanubhai Patel. ACI is engaged in manufacturing and export of reactive dyes using Dye Intermediaries as its raw materials. Its manufacturing facility is located in Ahmedabad (Gujarat) with a manufacturing capacity of 400 tons of Crude Dye and 400 tons of mix dyes (as per customer specification). The concern also purchases some colors from outside. It earns 90 percent of its revenue from mix dyes and the remaining from Crude dye. The concern caters 95 percent to the textile sector and the remaining to leather industry. Around 70 to 80 percent of the revenues are through exports to countries such as Turkey, Bangladesh, Egypt, Switzerland, Netherlands, Germany, USA, Mexico, Brazil, China, Taiwan, Pakistan and the rest are sold domestically.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  ACI is headed by Mr. Bhanubhai Patel, who has been in this industry for almost three decades. Acuité believes that the long track record of operations and extensive experience of the management have helped the company maintain long term relations with customers and suppliers.

- **Wide geographic reach and diversified customer profile**
  ACI manufactures dyes and chemicals and caters to the textile (~95 percent) and leather industry (~5 percent). ACI generates 80 percent of its revenue from exports to countries such as Turkey, Bangladesh, Egypt, Switzerland, Netherlands, Germany, USA, Mexico, Brazil, China, Taiwan, Pakistan, among others. Acuité believes that ACI's wide geographic reach and diversified customer profile will help the company maintain its revenue in the near to medium term.

- **Healthy revenue growth**
  The operating income of the concern stood at Rs.42.40 crore in FY2018 as against Rs.17.12 crore in FY2017 and Rs.9.41 crore in FY2016. The revenues have grown on account of increase in the installed capacity in FY2018 over FY2017 with optimum utilisation levels from the new capacity along with the reduction in inventory levels in FY2018 over FY2017. Further, ACI has registered revenues of Rs.25.00 crore for the period April to September, 2018. The revenues have grown on account of increase in export orders.

Weaknesses

- **Declining profitability margins**
The profitability margins of ACI have declined Y-O-Y. The operating margin stood at 3.60 percent in FY2018 (PY: 6.27 percent). The profitability was impacted mainly due to continuous cost pressures with raw material prices going-up. This impact could not be fully passed on to the customers because of competitive market conditions. However, in the absolute terms, the operating profit stood at Rs.1.07 crore in FY2018 (PY: Rs.0.54 crore). The net profitability margins are also declining at 1.26 percent in FY2018 (PY: 2.00 percent). This is majorly on account of increase in depreciation cost due to capex done in FY2018 and increase in interest cost due to increase in working capital requirements in FY2018. Acuité believes that the ability of the concern to maintain the profitability along with the sustained growth in revenues will be key rating sensitivity.

- **Average financial risk profile**
The financial risk profile of ACI has remained average marked by a tangible net worth of Rs.5.45 crore as on 31 March, 2018 (PY: Rs. 3.78 crore) which includes unsecured loans of Rs. 2.55 crore in FY2018 considered as quasi equity. The gearing stood at 0.73 times as on 31 March, 2018 (PY: 1.11 times). The gearing has reduced in FY2018 over FY2017 on account of infusion of funds in the form of unsecured loans by the proprietor. The total debt of Rs.3.96 crore outstanding as on 31 March, 2018 comprises secured term loan from the bank amounting to Rs.1.69 crore and short term working capital borrowings from bank of Rs.2.27 crore. The ICR and DSCR stood at 2.22 times in FY2018 (PY: 2.15 times) The Net Cash Accruals stood at Rs.0.84 crore in FY2018 (PY: Rs. 0.58 crore. The total outside liabilities to tangible net worth (TOL/TNW) stood high at 4.33 times as on 31 March, 2018 (PY: 3.59 times). TOL/TNW has increased on account of increase in the suppliers in FY2018 over FY2017.

- **Working capital intensive operations**
The operations of ACI are working capital intensive marked by high Gross Current Assets (GCA) of 215 days in FY2018 as compared to 302 days in FY2017. GCA days have improved on account decrease in inventory holding period and better realization from the receivables in FY2018 over FY2017. The inventory holding period stood at 51 days in FY2018 (PY: 116 days). The concern was able to sell of its inventory in FY2018 over FY2017. The debtor days stood at 126 days in FY2018 (PY: 151 days). The debtor days are high as 100 percent of the revenues are generated through exports wherein the payment terms are between 120 to 180 days. The average bank limit utilisation stood at ~63 percent for the last six months ended August, 2018.

Outlook: Stable
Acuité believes that ACI will maintain a 'Stable' outlook over the medium term on account of established track record of operations in Chemical Industry. The outlook may be revised to 'Positive' in case the concern registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the concerns revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	42.20	17.12	9.41
EBITDA	Rs. Cr.	1.52	1.07	0.54
PAT	Rs. Cr.	0.53	0.34	0.29
EBITDA Margin	(%)	3.60	6.27	5.70
PAT Margin	(%)	1.26	2.00	3.03
ROCE	(%)	13.97	11.99	15.52
Total Debt/Tangible Net Worth	Times	0.73	1.11	1.02
PBDIT/Interest	Times	2.22	2.15	2.93
Total Debt/PBDIT	Times	2.60	3.92	5.66
Gross Current Assets (Days)	Days	215	302	232

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

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

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

Rating History (Upto last three years)
Not Applicable

*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	3.00	ACUITE B+ / Stable
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.37	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE B+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.53	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4

Cash credit includes sublimit for Packing Credit Limit of Rs.2.50 crore and import Letter of Credit of Rs.2.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Namita Palve Analyst - Rating Operations Tel: 02249294034 namita.palve@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.