Press Release

Atext Chemical Industries

December 18, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 5.87 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB-**' **(read as ACUITE double B minus)** from **'ACUITE B+' (read as ACUITE B plus)** and the short-term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A4' (read as ACUITE A four)** to the Rs.5.87 crore bank facilities of ATEXT CHEMICAL INDUSTRIES (ACI). The outlook is **'Stable'**.

The rating revision is in view of improvement in business risk profile as marked by healthy growth in profitability margins. The EBITDA margins improved to 5.10 percent in FY2019 as against 3.60 percent in FY2018. Further, the Debt to EBITDA improved to 2.79 times in FY2019 as against 4.27 times in FY2018.

ACI was established in 1990 and is promoted 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 proprietorship concern caters ~90 percent to the textile sector and the remaining to leather, ink and paper 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 the standalone business and financial risk profiles of ACC to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management**

  ACI was established in 1990 and is headed by Mr. Bhanubhai Patel. The firm has established track record of around three decades in the same line of business. The promoters have a vast experience of over three decades in aforementioned industry and are ably supported by an experienced second line of management.

  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 ~90 percent to the textile and remaining ~10 percent to leather, paper and ink industry. 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. The firm reported EBITDA margin of 5.10 percent in FY2019 as against 3.60 percent in FY2018 and Profit after Tax (PAT) margins stood at 1.60 percent in FY2019 as against 1.26 percent in FY2018. The reason for improvement in margins was on account of increase in raw material prices which the firm was effectively been able to pass on to customers.

  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.

Weaknesses

- **Average financial risk profile**

The financial risk profile has remained average marked by tangible net worth of Rs.2.88 crore as on 31 March, 2019 as against Rs.2.89 crore as on 31 March, 2018. The gearing (debt-to-equity) stood at 2.09 times as on 31 March, 2019 as against 2.25 times as on 31 March, 2018. The total debt outstanding of Rs. 6.01 crore as on 31 March, 2019 consist of long term borrowing of Rs.1.26 crore, unsecured loans of Rs.2.86 crore and working capital borrowing of Rs.1.89 crore. The interest coverage ratio stood at 1.90 times for FY2019 as against 2.22 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) increased to 8.29 times as on 31 March, 2019 as against 9.04 times as on 31 March, 2018. The net cash accruals stood at Rs. 1.02 crore in FY2019 as against the repayment obligation of Rs. 0.42 crore in FY2018.

Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

- **Working capital intensive operations**

The firm has working capital intensive operations marked by Gross Current Assets (GCA) of 208 days in FY2019 as against 215 days in FY2018. Increase in GCA days is majorly on account of high inventory holding period and receivables in FY2019 and FY2018. The inventory holding period stood at 71 days in FY2019 as against 51 days in FY2018. The receivables days also stood high at 133 days in FY2019 as against 126 days in FY2018.

Acuité believes that the ability of the firm to maintain its working capital operations will be key rating sensitivity.

Rating Sensitivities

- Substantial reduction in GCA days to around 100-150 days.
- Substantial improvement in scale of operation (~Rs. 55.00-65.00 crore), while maintaining profitability margin of around 5.1-6.0 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 0.50 crore - Rs. 1.00 crore during the last three years through 2017-19; while the maturing debt obligations were in the range of Rs. 0.40 crore over the same period. The cash accruals are estimated to be in the range of Rs. 1.00 crore – Rs. 1.40 crore during 2019-21, while its repayment obligations at Rs. 0.40 crore over the same period. The company maintains cash and bank balances of Rs. 0.08 crore as on March 31, 2019. The current ratio stood moderate at 1.10 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

Outlook: Stable

Acuité believes that ACI will maintain a 'Stable' outlook and benefit over the medium term from its experienced management and improvement in profitability. The outlook may be revised to 'Positive' if the company reports higher than expected revenues and profitability margins while managing its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and profitability or elongation in the working capital cycle leading to deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	39.08	42.20
PAT	Rs. Cr.	0.63	0.53
PAT Margin	(%)	1.60	1.26
Total Debt/Tangible Net Worth	Times	2.09	2.25
PBDIT/Interest	Times	1.90	2.22

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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
30-Oct-2018	Cash Credit	Long Term	3.00	ACUITE B+ /Stable (Assigned)
	Working Capital Term Loan	Long Term	0.45	ACUITE B+ /Stable (Assigned)
	Term Loan I	Long Term	0.19	ACUITE B+ /Stable (Assigned)
	Term Loan II	Long Term	0.37	ACUITE B+ /Stable (Assigned)
	Term Loan III	Long Term	0.08	ACUITE B+ /Stable (Assigned)
	Bank Guarantee	Short Term	0.25	ACUITE A4 (Assigned)
	Proposed Long Term Loan	Long Term	1.53	ACUITE B+ /Stable (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	3.00*	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)
Term Loan III	Not Applicable	Not Applicable	Not Applicable	0.03	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+ (Upgraded from ACUITE A4)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.03	ACUITE BB- /Stable (Upgraded from ACUITE B+/Stable)

**Sublimit – Packing credit of Rs.2.50 crore, Bill Discounting of Rs.1.20 crore and Letter of Credit of Rs. 2.00 crore.*

Contacts

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About Acuité Ratings & Research:
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