

Press Release

Phthalo Colours and Chemicals India Limited

April 08, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.29.74 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.29.74 Cr. bank facilities of Phthalo Colours and Chemicals India Limited (PCCIL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the established track record of operations and extensive experience of the promoter in the dyes & pigments industry. However, the rating is constrained by stretched liquidity position, moderate financial risk profile and working capital intensive operations of the company. Further, the operations of the company have also been impacted due to unprecedented covid-19 disruptions in 9MFY21.

About the Company

Mumbai based, PCCIL was incorporated in 1991 as a public limited company by Mr. Priyam Jhaveri and is engaged in manufacturing and export of Phthalocyanine pigments under the brand name of "Rangday". The company is one of the group companies of the reputed Mumbai based Nanavati Group having a legacy and experience of more than six decades of diversified business interests. The company products such as Phthalocyanine Blue and Phthalocyanine Green have diverse applications across industries like printing ink, paints and coatings, plastics etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of PCCIL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations along with experience management

PCCIL was established in 1991 as a public limited company by Mr. Priyam Jhaveri who possess more than four decades of experience in the pigment industry. The company is one of the group companies of the reputed Mumbai based Nanavati Group having a legacy and experience of more than six decades of diversified business interests. The promoter is supported by experienced and qualified second line of management to run the day to day operations of the company. PCCIL currently exports around 65 percent of its products to countries like USA, Latin America and Russia. The extensive experienced of the promoter in the aforementioned industry has helped the company to established and maintain long term relationship with its customers since its inception.

Acuité believes that PCCIL will sustain its existing business profile on back of an established track record of operations and experienced management in the medium term.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company is moderate marked by moderate tangible net worth, high gearing and moderate debt protection metrics. The tangible net worth of the company stood at Rs.14.61 Cr. as on

31 March, 2020 as against Rs.14.51 Cr. in the previous year. The company follows an aggressive policy reflected by high gearing (debt to equity) of 4.10 time as on 31 March, 2020 compared to 4.22 times same period last year. The high gearing of the company is on account of high borrowings consisting of Term Loan borrowings of Rs.33.58 crore, unsecured loan from promoters of Rs.16.87 Cr. and working capital borrowings of Rs.9.40 Cr. The interest coverage ratio deteriorated marginally to 1.28 times in FY20 as against 1.36 times in the previous year. The debt service coverage ratio stood at 1.04 times in FY20 as against 0.44 times in the previous year. The total liabilities to tangible net worth (TOL/TNW) improved marginally yet remained high at 7.50 times as on 31 March, 2020 as against 8.24 times in the previous year. The debt to EBITDA also remained high at 5.68 times for FY20 as against 6.13 times for FY19.

Acuité believes that the financial risk profile of the company will continue to remain moderate over the near to medium term on account of disruptions in operations owing to covid-19 pandemic.

• Working Capital Intensive Operations

The operations of the company are working capital intensive in nature marked by improved yet high Gross Current Assets (GCA) of 185 days for FY20 as against 232 days for FY19. The improvement in GCA days is majorly on account of decrease in debtor levels to 47 days for FY20 compared to 87 days for FY19. Subsequently, the creditor days was also declined to 157 days for FY20 as against 202 days for FY19. The inventory level of the group remains at similar levels of 88 days in both FY20 and FY19 respectively. However, the high GCA days of the company is also marked by high loans and advances provided to group entities. Further, the average cash credit limit utilization stood moderate at around 80 percent during in last six months ended Feb, 2021.

Acuité believes the ability of the company to efficiently manage its working capital cycle will remain a key rating sensitivity.

Rating Sensitivities

- Improvement in revenues while maintaining profitability margins
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company had NCA of Rs.2.12 Cr. as against the maturing debt obligation of Rs.8.24 Cr. in FY2020. The cash accruals of the company are estimated to remain around Rs.14.52 - 5.99 Cr. during 2021-23 while its repayment obligation is estimated to be around Rs.9.04 – 6.69 crore during the same period. Further, the operations of the company are working capital intensive marked by high gross current asset (GCA) days of 185 days for FY2020. The working capital requirement is funded through bank lines that have been utilized over 80 percent in last six months ended February, 2021. The current ratio of the company stands low at 0.94 times as on March 31, 2020. Acuite believes that the liquidity of the company will continue to remain stretched over the medium term on account of low cash accruals with moderate repayments over the medium term.

Outlook

Acuité believes that the company will maintain 'Stable' outlook in the medium term on account of the extensive experience of the promoters in the pigment industry. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of less-than-expected generation of cash accruals or stretch in its working capital cycle leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	150.04	141.95
PAT	Rs. Cr.	0.09	(5.88)
PAT Margin	(%)	0.06	(4.14)
Total Debt/Tangible Net Worth	Times	4.10	4.22
PBDIT/Interest	Times	1.28	1.36

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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. Crore)	Ratings/Outlook
Term Loan	Mar, 2017	12.10	Feb, 2023	10.10	ACUITE BB-/Stable (Assigned)
WCTL	Sep, 2020	8.25	Aug, 2024	4.00	ACUITE BB-/Stable (Assigned)
PCFC*	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE A4 (Assigned)
WCTL	Sep, 2020	7.50	Aug, 2023	1.89	ACUITE BB-/Stable (Assigned)
WCTL	May, 2020	8.00	Apr, 2022	1.00	ACUITE BB-/Stable (Assigned)
PCFC**	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Assigned)

*Sub-limit of CC of Rs.0.65 Cr. and Bills Discounting/Letter of Credit/BG of Rs.2.75 Cr.

**Sub-limit of CC of Rs.3.00 Cr. and FDBP/Letter of Credit cum BG of Rs.3.00 Cr.

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About Acuité Ratings & Research:

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