

Press Release

Phthalo Colours and Chemicals India Limited

June 29, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.10	-	ACUITE A4 Reaffirmed
Bank Loan Ratings	17.64	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	29.74	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its 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'.

Reason for rating reaffirmation

The rating reaffirmation takes into account the experienced management with long track record of operations along with the improvement in the business risk profile. However the rating is constrained by the below average financial risk profile, working capital intensive operations and stretched liquidity position.

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

Acuite 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 exports its products to countries like USA, Latin America and Russia. Major exports ie around 60-70 percent are done to USA and Europe. 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.

Improved business risk profile

The revenue of the company improved by ~24 percent and stood at Rs.184.10 crore in FY22 compared to revenue of Rs.148.50 crore in FY21. This growth is majorly on account of change in product mix and higher price realization for the products. The operating profit margin of the company also improved to 6.79 percent in FY22 compared against 6.47 percent in FY21. The PAT margin deteriorated to 0.13 percent in FY22 to 5.27 percent in FY21. PAT margin is higher in FY21 due to the gain from the sale of property of Rs.20.35 crore classified into other income. Acuité believes that PCCIL will sustain its business risk profile in the medium term.

Weaknesses

Below average financial risk profile

The financial risk profile of the company stood below average marked by moderate net worth, high gearing and below average debt protection metrics. The tangible net worth stood at Rs.22.48 crore as on 31 March, 2022 as against Rs.22.23 crore as on 31 March, 2021. The increase in the network is due to the accretion of the profits in the reserves. The total debt of the company stood at Rs.72.99 crore which includes Rs.27.46 crore of long term debt, Rs.3.03 crore unsecured loans from directors and Rs.36.14 crore of short term debt as on 31 March, 2022. The gearing (debt-equity) stood high at 3.25 times as on 31 March, 2022 as compared to 2.82 times as on 31 March, 2021. Interest Coverage Ratio stood at 1.34 times for FY2022 as against 2.65 times for FY2021. Debt Service Coverage Ratio (DSCR) stood below unity at 0.83 times in FY2022 as against 1.16 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 5.86 times as on 31 March, 2022 as against 5.05 times on 31 March, 2021.

Acuité believes that the financial risk profile of the company will be moderate over the near to medium term.

Working capital intensive operations

The working capital management of the company is intensive marked by GCA days of 196 days in FY2022 as against 211 days in FY2021. Also, the debtor days stood at 74 days in FY2022 as against 64 days in FY2021. The inventory days stood at the same range at 92 days for FY 2022 as against 91 days for FY 2021. The creditors days stood at 150 days in FY2022 as against 147 days in FY21. The working capital cycle was affected due to the shipment issues wherein there were shortage of vessels used for exporting the products. The company reliance on working capital borrowings is moderate marked by average utilization of working capital limits of 65 percent for union bank of india and 78 percent for Axis bank and Kotak Mahindra Bank during the last six months period ended May' 2022.

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 the financial risk profile of the company

Deterioration in working capital management leading to stretched liquidity

Material covenants

None

Liquidity Position: Stretched

The company has a stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.3.25 crore in FY22 compared against maturing debt obligations of Rs.5.96 crore over the same period. The cash accruals of the company are estimated to remain around Rs.6.56-9.33 crore during 2023-25 period while its matured debt obligations is estimated to be in the range of Rs.1.43-4.72 crore during the same period. The company reliance on working capital borrowings is moderate marked by average utilization of working capital limits of 65 percent for union bank of india and 78 percent for axis bank and kotak Mahindra banks during the last six months period ended May' 2022. The company maintains unencumbered cash and bank balances of Rs.0.54 crore as on March 31, 2022 and the current ratio stood at 0.95 times as on March 31, 2022. Acuite believes that the liquidity of the company will continue to remain stretched over the medium term.

Outlook: Stable

Acuite 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	184.10	148.50
PAT	Rs. Cr.	0.24	7.83
PAT Margin	(%)	0.13	5.27
Total Debt/Tangible Net Worth	Times	3.25	2.82
PBDIT/Interest	Times	1.34	2.65

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

India ratings and research, vide its press release dated Sept 8, 2021 denoted the rating of Phthalo colours and chemicals india limited as 'IND D; ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the 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
08 Apr 2021	Working Capital Term Loan	Long Term	1.00	ACUITE BB- Stable (Assigned)
	Packing Credit	Short Term	2.75	ACUITE A4 (Assigned)
	Working Capital Term Loan	Long Term	4.00	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	10.10	ACUITE BB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.89	ACUITE BB- Stable (Assigned)
	Packing Credit	Short Term	10.00	ACUITE A4 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE BB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.10	ACUITE A4 Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	14.33	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.89	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.57	ACUITE BB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Management Trainee-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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