



Press Release
Phthalo Colours and Chemicals India Limited
September 26, 2023

Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.64	ACUITE B+ Stable Downgraded	-
Bank Loan Ratings	9.10	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	29.74	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **'ACUITE B+' (read as ACUITE B plus)** from **'ACUITE BB-' (read as ACUITE double B minus)** and reaffirmed its 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

The rating downgrade reflects the deterioration in the business risk profile of the company in FY23(Prov). The operating income of the company deteriorated and stood at Rs.112.80 crore in FY23 (Prov) as against the revenue of Rs.184.63 crore in FY22. Majority of sales are done to USA and Europe region. The decline in the operating income is due to the slump in the demand in the overseas markets. The operating profitability also declined and stood at 3.69 percent in FY23(Prov) as against 7.64 percent in FY22. The rating downgrade also takes into consideration the below average financial risk profile, working capital intensive operations and stretched liquidity position of the company.

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 i.e., 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.

Weaknesses

Below average financial risk profile

The financial risk profile of the company is below average with low networth, high gearing levels and weak debt protection metrics. The tangible net worth of the company stood at Rs.26.37 crore as on March 31, 2023 (Prov), as against Rs.31.28 crore as on March 31, 2022. Out of the Rs.27.50 crore of total capital, Rs.8.82 crore is preference share capital. The company has infused ~Rs.3.63 crore in FY23 and ~Rs.9.00 crore in 6MFY24. The gearing of the company stood high at 2.13 times as on March 31, 2023(Prov), as against 1.84 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.29.75 crore, unsecured loans of Rs.8.40 crore and short-term debt of Rs.10.45 crore as on March 31, 2023(Prov). The Trade finance promissory notes of Rs.17.68 crore was paid off in FY23 and the company has added a term loan of ~Rs.18.14 crore to repay the same. The company has undertaken capacity expansion of Rs.22 crore which will be partly debt funded and partly equity funded. The interest coverage ratio stood at 0.72 times as on March 31, 2023(Prov), as against 1.39 times as on March 31, 2022. The DSCR stood below unity at 0.38 times as on March 31, 2023(Prov), as against 0.85 times as on March 31, 2022. Acuité believes that the ability of the company to improve its financial risk profile will remain key monitorable over the near to medium term.

Working capital intensive operations

The company's operations are working capital intensive as evident from the GCA days of 203 days as on March 31, 2023 (Prov) as against GCA days of 197 days as on March 31, 2022. The inventory days stood at 114 days for FY23(Prov) as against 99 days for FY22. The inventory majorly consists of the finished goods. Due to the decrease in the demand for products there was inventory pileup in FY2023. The average inventory holding period is around 90 days. The debtors' days stood at 52 days for FY23(Prov) as against 73 days for FY22. The average credit period allowed to the customers is around 80 days. The creditors days stood at 180 days for FY23(Prov) against 186 days for FY22. The average credit period received from the supplier is around 90 days. The average utilization of the bank limits is high at around 84 percent for six months ending August '2023. Acuité believes that the ability of the company to improve its working capital operations will remain key monitorable over the near to medium term.

Susceptibility of operating performance to input price volatility

Copper Phthalocyanine Crude is the major raw material for the company. The prices of the raw material is highly volatile in nature and any adverse movement in the price of raw material may impact the profitability of the company.

Rating Sensitivities

Improvement in revenues and profitability margins
Further deterioration in the financial risk profile of the company
Deterioration in working capital management leading to stretched liquidity

All Covenants

Not Applicable

Liquidity position: Stretched

The company has a stretched liquidity position marked by low net cash accruals against the maturing debt obligations. The company generated cash accruals of negative Rs.1.94 crore in FY23(Prov) as against maturing debt obligations of Rs. 6.24 crore over the same period. The company is estimated to generate cash accruals of Rs.0.74 crore-3.80 crore over the period 2024-2025 against maturing debt obligations of Rs.5.68-6.21 crore over the same period. The company maintains unencumbered cash and bank balance of Rs.1.14 crore as on March 31, 2023(Prov). The current ratio stood at 1.04 times as on March 31, 2023(Prov). 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	112.80	184.63
PAT	Rs. Cr.	(4.89)	0.20
PAT Margin	(%)	(4.33)	0.11
Total Debt/Tangible Net Worth	Times	2.13	1.84
PBDIT/Interest	Times	0.72	1.39

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

India ratings vide its press release dated 9th Sept 2022, had rated the company to IND-RA D/D; Issuer Not Cooperating

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

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
29 Jun 2022	Packing Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Working Capital Term Loan	Long Term	1.89	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	0.65	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.20	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	14.33	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.57	ACUITE BB- Stable (Reaffirmed)
	Packing Credit	Short Term	2.10	ACUITE A4 (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.40	ACUITE B+ Stable Downgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE B+ Stable Downgraded
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	2.10	ACUITE A4 Reaffirmed
Union Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE A4 Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.57	ACUITE B+ Stable Downgraded
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.67	ACUITE B+ Stable Downgraded

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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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