

October 03, 2013

| Facilities | Amount (Rs. Crore) | Rating |
|-----------------------|--------------------|------------------------------------|
| Export Packing Credit | 7.00* | SMERA BBB/Stable (Assigned) |
| Letter of Credit | 2.00^ | SMERA A3+(Assigned) |
| Credit Exposure Limit | 1.44 | SMERA A3+(Assigned) |

* Fully interchangeable with Foreign Bill Discounting

^ Interchangeable with Bank Guarantee to the extent of Rs. 0.20 crore

SMERA has assigned a Long Term rating of '**SMERA BBB** (read as **Triple B**) and Short Term rating of '**SMERA A3+** (read as **SMERA A Three Plus**) to the Rs.10.44 crore bank facilities of Aries Dye Chem Industries (ADCI). The outlook is **Stable**. The rating is supported by the firm's long and established track record of operations, strong financial profile, healthy coverage indicators and healthy profit margins. The rating is also supported by the firm's diversified product profile, strong customer base and experienced management. However, the rating is constrained by the firm's susceptibility to raw material price volatility and geographic concentration risk.

ADCI, established in 1980, is an Ahmedabad-based proprietorship concern engaged in manufacturing and export of synthetic organic dyes. ADCI has a strong financial profile with low leverage at 0.28 times as on March 31, 2013. Moreover, the firm does not have any long-term debt as on March 31, 2013. ADCI has a strong interest coverage ratio of 9.04 times in FY2012-13 (refers to financial year, April 01 to March 31). The firm has maintained healthy profitability with PAT margins in the range of 7.5 per cent to 8.5 per cent during the past five years. ADCI has a diversified product profile. The firm manufactures about 40-50 variants of synthetic organic dyes used in leather and textile industry. ADCI caters to about 200 customers located across 20 countries. Exports account for about 95 per cent of the firm's total revenues over the past five years. Although ADCI is exposed to foreign exchange fluctuation risk, the firm has a natural hedge (on about 60 per cent of its sales) due to imports. Further, the firm also enters into forward contracts to hedge currency fluctuation risk. ADCI complies with the 'Registration, Evaluation and Authorization of Chemicals' (REACH) regulations (prescribed by the European Commission), which provide access to the European markets.

Mr. Kantilal Patel, Proprietor of ADCI, has a postgraduate degree in organic chemistry (specialization in dyes) with around three decades of experience in the dyestuff industry. Mr. Arish Patel, son of Mr. Kantilal Patel, is actively involved in the overall operations of the business.

ADCI's main inputs include benzene, toluene, xylene and naphthalene, which are derivatives of crude oil. ADCI is thus susceptible to raw material price volatility, which is intensified by the recent geopolitical tensions in the Arab countries. ADCI's major customers are located in Europe. The recent economic slowdown in Europe adversely affected the leather and textile industry.

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Consequently, ADCI faced a slowdown in demand for dyestuff in FY2011–12. However, the firm's revenue increased in FY2012–13 with steady economic recovery in the Eurozone.

Outlook: Stable

SMERA believes the outlook on ADCI's rated facilities will remain stable over the medium term on account of the firm's healthy revenue visibility. The outlook may be revised to 'Positive' if the firm achieves higher-than-expected revenues while maintaining healthy profitability. Conversely, the outlook may be revised to 'Negative' in case of a sustained weakness in the firm's key markets and deterioration in the firm's revenue growth, profit margins and liquidity position.

About the firm

ADCI, a part of the Aries Group, is a proprietorship concern established in 1980 by Mr. Kantilal Patel. The firm is engaged in manufacturing and export of synthetic organic dyes including acid dyes, direct dyes and reactive dyes. ADCI has a manufacturing facility in GIDC – Vatva, at Ahmedabad, Gujarat.

For FY2012–13, ADCI reported PAT of Rs.5.47 crore on operating income of Rs.72.65 crore as compared with PAT of Rs.4.10 crore on operating income of Rs.56.73 crore for FY2011–12. In the first quarter of FY2013–14, the firm reported operating income of Rs.15.10 crore (provisional). ADCI's net worth stands at Rs.23.59 crore as on March 31, 2013 as compared with Rs.18.13 crore a year earlier.

About the group

The Aries Group comprises ADCI, Aries Organics Private Limited, Aries Color Chem Private Limited and Bhagwati Chemical Industries. All the enterprises under the Aries Group are engaged in manufacturing of synthetic organic dyes. The group has an installed capacity of manufacturing ~16,200 MTPA of synthetic organic dyes and 2,700 MTPA of dye intermediates.

For FY2012–13, the Aries Group reported PAT of Rs.10.46 crore on operating income of Rs.127.32 crore. The group's net worth stands at Rs.54.72 crore as on March 31, 2013.

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