

July 22, 2014

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

* Fully interchangeable with foreign bill discounting

^ Interchangeable to the extent of Rs.0.20 crore with bank guarantee

SMERA has reaffirmed long-term rating of '**SMERA BBB** (read as SMERA triple B) and short-term rating of '**SMERA A3+** (read as SMERA A three plus) on the Rs.10.44 crore bank facilities of Aries Dye Chem Industries (ADCI). The outlook is '**Stable**'. The ratings continue to draw support from the firm's long and established track record of operations, strong financial profile, healthy coverage indicators and strong profit margins. The ratings are also supported by the firm's diversified product profile, strong customer base and experienced management. However, the ratings remain constrained by the firm's exposure to raw material price volatility and geographic concentration risk.

Update

ADCI registered net operating income of Rs.75.07 crore (provisional) in FY2013-14 (refers to financial year, April 01 to March 31), as compared with net operating income of Rs.72.36 crore in FY2012-13. The firm reported profit after tax (PAT) of Rs.8.57 crore (provisional) in FY2013-14, as compared with PAT of Rs.5.47 crore in FY2012-13.

ADCI's strong financial profile is reflected in low leverage of 0.44 times (provisional) as on March 31, 2014. Moreover, the firm does not have any long-term debt as on March 31, 2014. ADCI's interest coverage ratio is strong at 19.97 times (provisional) in FY2013-14. The firm's net profit margin improved from 7.52 per cent in FY2012-13 to 10.84 per cent (provisional) in FY2013-14.

ADCI's diversified product profile includes ~50 variants of synthetic organic dyes used in leather and textile industries. The firm caters to ~200 customers across 20 countries. Although ADCI is exposed to foreign exchange fluctuation risk, the firm has a natural hedge (on ~60 per cent of its sales) arising from imports. Further, ADCI also enters into forward contracts to hedge forex fluctuation risk. The firm gains access to the European markets by complying with the 'Registration, Evaluation and Authorization of Chemicals' (REACH) regulations prescribed by the European Commission.

ADCI continues to benefit from its experienced management. 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 firm.

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ADCI's main inputs include benzene, toluene, xylene and naphthalene, which are derivatives of crude oil. The firm's profitability is thus exposed to raw material price volatility, which is intensified by the recent geopolitical tensions in Arab countries.

Outlook: Stable

Smera believes the outlook on ADCI's rated facilities will remain stable over the medium term on account of the firm's strong financial risk profile. The outlook may be revised to 'Positive' in case the firm registers sustained growth in revenues and profitability while achieving a strong liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers decline in revenues and profitability, or in case of deterioration in the firm's liquidity position.

About the firm

ADCI, a part of the Aries Group, is a proprietorship concern established in 1980 by Mr. Kantilal Patel. ADCI is engaged in manufacturing and export of various synthetic organic dyes, including acid dyes, direct dyes and reactive dyes. The firm's manufacturing unit is located in GIDC – Vatva, Ahmedabad (Gujarat).

For FY2013–14 (as per provisional financial statements), ADCI reported profit after tax (PAT) of Rs.8.20 crore on operating income of Rs.75.68 crore, as compared with net profit of Rs.5.47 crore on operating income of Rs.72.65 crore in FY2012–13. The firm's net worth stood at Rs.21.42 crore (provisional) as on March 31, 2014, as compared with Rs.23.59 crore a year earlier.

About the group

The Aries Group comprises three entities viz. ADCI, Aries Organics Private Limited and Aries Colorchem Private Limited. All the entities of the Aries Group are engaged in manufacturing of synthetic organic dyes. The group's installed manufacturing capacity stands at ~16,200 metric tonnes per annum (MTPA) for synthetic organic dyes and 2,700 MTPA for dye intermediates.

For FY2013–14 (as per provisional financial statements), the Aries Group reported PAT of Rs.24.31 crore on operating income of Rs.224.23 crore, as compared with PAT of Rs.8.42 crore on operating income of Rs.125.30 crore for FY2012–13. The group's net worth stood at Rs.64.14 crore (provisional) as on March 31, 2014, as compared with Rs.47.20 crore a year earlier.

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