



SMERA RATINGS LIMITED

Aries Organics Private Limited (AOPL)**Rating
Rationale****October 18, 2013**

Facilities	Amount (Rs. Crore)	Rating
Fund-based facilities	5.00	SMERA A3+/Assigned
Non fund-based facilities	2.10	SMERA A3+/Assigned

SMERA has assigned a rating of '**SMERA A3+**' (read as **SMERA A Three Plus**) to the Rs.7.10 crore short-term facilities of Aries Organics Private Limited (AOPL). The rating is supported by the company'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 company's diversified product profile, strong customer base and experienced management. However, the rating is constrained by the company's exposure to raw material price volatility and geographic concentration risk. The rating also factors in the expiry of the income tax concession availed by the company.

AOPL, incorporated in 1995, is an Ahmedabad-based company engaged in manufacturing and export of synthetic organic dyes. AOPL has a strong financial profile with low leverage at 0.27 times as on March 31, 2013. Moreover, the company does not have any long-term debt as on March 31, 2013. AOPL has a strong interest coverage ratio of 7.71 times in FY2012-13 (refers to financial year, April 01 to March 31). Although AOPL has a modest scale of operations with revenues of Rs.44.67 crore in FY2012-13, the company has maintained healthy profitability with PAT margins in the range of 5.7 per cent to 5.9 per cent during the last two years. AOPL has a diversified product profile. The company manufactures about 20-25 variants of synthetic organic dyes used in leather and textile industry. AOPL is an Export Oriented Unit (EOU) and caters to about 200 customers located across 20 countries. Although AOPL is exposed to foreign exchange fluctuation risk, the company has a natural hedge (on about 60 per cent of its sales) due to imports. Further, the company also enters into forward contracts to the currency fluctuation risk. AOPL complies with the 'Registration, Evaluation and Authorization of Chemicals' (REACH) regulations (prescribed by European Commission), which provide better access to the customers in Europe.

Mr. Kantilal Patel, director of AOPL, has a postgraduate degree in organic chemistry with specialization in dyes. He has around three decades of experience in the dyestuff industry. Mr. Arish K. Patel, son of Mr. Kantilal Patel, is also actively involved in the overall operations of the business.

AOPL's main inputs include Benzene, Toluene, Xylene and Naphthalene, which are derivatives of crude oil. AOPL is thus susceptible to raw material price volatility, which is intensified by the recent geopolitical tensions in the Arab countries. AOPL's major customers are located in Europe. The recent economic slowdown in Europe had an adverse impact on the leather and textile industry. Consequently, AOPL faced a slowdown in demand for dyestuff in FY2011-12. However, the company's revenue grew in FY2012-13 with steady economic recovery in the Eurozone.

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AOPL was entitled to income tax exemption (under section 10B of The Income Tax Act, 1961) till FY2010-11. The company is now subject to income tax of 30 per cent on net profit, which resulted in decline in PAT margins during FY2011-12 and FY2012-13.

Outlook: Stable

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

About the company

Aries Organics Private Limited (AOPL) was incorporated in 1995 by Mr. Kantilal Patel. The company is engaged in manufacturing and export of synthetic organic dyes such as acid dyes, direct dyes and reactive dyes. AOPL is an Export Oriented Unit and caters to clients based in Italy, Spain, Netherlands, Argentina, United Kingdom, Greece and Turkey. AOPL has a manufacturing facility in GIDC – Vatva at Ahmedabad, Gujarat.

In FY2012-13, AOPL reported PAT of Rs.2.57 crore on operating income of Rs.44.67 crore as compared with PAT of Rs.2.10 crores on operating income of Rs.35.62 crore in FY2011-12. In the first quarter of FY2013-14, the company reported operating income of Rs.11.92 crore (provisional). AOPL's net worth stands at Rs.18.73 crore as on March 31, 2013 as compared with Rs.15.85 crore a year earlier.

About the group

The Aries Group comprises AOPL, Aries Dye Chem Industries, Aries Color Chem Private Limited and Bhagwati Chemical Industries. All the enterprises under the Aries Group are engaged in manufacturing 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.

In 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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