



SMERA RATINGS LIMITED

Aries Organics Private Limited (AOPL)

Rating Rationale

July 31, 2015

Facilities	Amount (Rs. Crore)	Ratings
Export Packing Credit	5.00*	SMERA BBB/Positive (Rating Reaffirmed, Outlook Revised)
Letter of Credit	2.00^	SMERA A3+ (Reaffirmed)
Credit Exposure Limit	0.10	SMERA A3+ (Reaffirmed)

* Fully interchangeable with foreign bill discounting

^Interchangeable to the extent of Rs.0.50 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. 7.10 crore bank facilities of Aries Organics Private Limited (AOPL). The outlook has been revised to '**Positive**' from 'Stable'.

SMERA has consolidated the business and financial risk profiles of AOPL, Aires Dye Chem Industries (ADCI) and Aries Colorchem Private Limited (ACPL) and together referred to as the 'Aries Group'. The consolidation is in view of the common ownership, similar business models of the entities and significant operational and financial linkages between the three companies.

The revision in outlook reflects the likelihood of improvement in the Aries Group's business risk profile supported by steady revenue growth while maintaining profitability margins and working capital cycle. There has been a pre-payment of term loan along with significant increase in the group's networth, which has enhanced its financial flexibility leading to improvement in its capital structure. The outlook revision also factors in SMERA's belief that the group will sustain improvement in its financial risk profile over the medium term on the back of consistent growth in its net worth and absence of any large debt-funded capital expenditure (capex) programme.

The ratings continue to derive support from the group's established track record of operations, experienced management and diversified product profile. The ratings also derive comfort from the group's healthy financial risk profile marked by strong networth, low gearing, and healthy debt protection metrics. However, the ratings remain constrained by the group's working-capital intensive nature of operations in an intensely competitive business environment. The ratings also note that the group's business is highly vulnerable to fluctuation in raw material (H-Acid) prices and volatility in foreign exchange rates.

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Update

In FY2014-15, the group reported profit after tax (PAT) of Rs.25.44 crore (provisional) on operating income of Rs.230.62 crore, as compared to PAT of Rs.32.82 crore on operating income of Rs.229.42 crore in the previous year. The group's revenues have remained stagnant because of muted demand in the overseas market. However in FY2014-15, the group's profitability margin has fallen mainly on account of fluctuation in H-Acid prices.

The group's healthy financial risk profile is marked by net worth of Rs.83.04 crore as on March 31, 2015 vis-à-vis Rs.68.15 crore in the previous year. The group's gearing is comfortable at 0.34 times as on March 31, 2015 and interest coverage ratio of 13.74 times in FY2014-15.

Outlook: Positive

SMERA believes that the Aries Group's business risk profile is likely to improve over the medium term driven by steady revenue growth while maintaining its profitability margins. The group is also expected to sustain improvement in its financial risk profile over this period in the absence of any large debt-funded capex programme. The ratings may be upgraded in case of sustained improvement in the group's revenues and profitability margin. Conversely, the outlook may be revised to 'Stable' in case of a decline in the group's profitability margins, or deterioration in its capital structure and liquidity position.

About the group

Aries Group comprises three entities viz. AOPL, Aries Dye Chem Industries (ADCI) and Aries Colorchem Private Limited (ACPL). The group is engaged in manufacturing of dye intermediates and synthetic organic dyes. The installed capacity of the group is ~16,700 metric tonnes per annum (MTPA) for synthetic organic dyes and 2,700 MTPA for dye intermediates. The group is managed by Mr. Kantilal Patel and Mr. Aries Patel.

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