



SMERA RATINGS LIMITED

Rohan Dyes and Intermediates Limited (RDIL)

Rating Rationale

January 17, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	8.04	SMERA BB/Stable (Assigned)
Cash Credit	3.00	SMERA BB/Stable (Assigned)
Foreign Bill Discounting	11.00	SMERA A4+ (Assigned)
Standby Line of Credit	1.00	SMERA A4+ (Assigned)
EPC/PCFC	6.00	SMERA A4+ (Assigned)
Letter of Credit	11.31	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the above-mentioned bank facilities of Rohan Dyes and Intermediates Limited (RDIL). The outlook is '**Stable**'. The ratings are supported by the company's long track record of operations and moderate financial risk profile. The ratings are further supported by the company's long-standing customer relationships, experienced management and healthy growth in revenues post FY2011-12 (refers to financial year, April 01 to March 31). However, the ratings are constrained by the company's exposure to intense competition prevalent in the dyestuff industry. The ratings are also constrained by the company's working capital-intensive operations and susceptibility to raw material price volatility and foreign exchange rate fluctuations.

RDIL, incorporated in 1992, is an Ahmedabad-based manufacturer and exporter of acid dyes, direct dyes and reactive dyes. The company has a moderate financial risk profile marked by net worth of Rs.21.21 crore as on March 31, 2013 and interest coverage ratio of 1.56 times in FY2012-13. RDIL benefits from its established associations with customers based in Europe. The company also benefits from its experienced management. Mr. Radheshyam Agarwal, Director of RDIL, has around 35 years of experience in the dyes industry. Mr. Rohan Agarwal (son of Mr. Radheshyam Agarwal) has around 7 years of experience in the company's line of business.

RDIL's revenues increased from Rs.48.92 crore in FY2011-12 to Rs.62.75 crore in FY2012-13, a growth of 29 per cent. Moreover, the company registered revenues of Rs.69.18 crore during April 2013 to December 2013. RDIL has recently witnessed revival in demand for dyes in the European markets. The company also benefits from better realisation on dyes on account of supply constraint (arising from the shutdown of small manufacturing units due to sluggish demand environment in 2009-2012 and stringent pollution control norms). SMERA believes RDIL's financial risk profile would continue to benefit from the favourable demand environment in the medium term.

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RDIL's pricing power is limited by the intense competition prevalent in the dyestuff industry. Moreover, the company is exposed to stringent environment regulations. RDIL is dependent on the fortunes of its end-user industries, which include textile and leather. The company's operations are working capital-intensive, as reflected in gross current asset of ~230 days in FY2012-13. RDIL's inventory holding period is stretched at ~80 days due to lead time involved in import of raw material and production of finished products. Moreover, the company offers credit of ~90 days to its customers. However, SMERA believes RDIL's working capital cycle is likely to be comfortable in the medium term on the back of the improving demand scenario. RDIL's profit margins are susceptible to volatility in prices of raw material. The company's profitability is also exposed to foreign exchange fluctuation risk, which is partially mitigated by natural hedge arising from import of raw material.

Outlook: Stable

SMERA believes that RDIL will maintain a 'Stable' business risk profile over the medium term on account of its healthy revenue visibility. The outlook may be revised to 'Positive' in case the company registers higher-than-expected revenues and profitability while maintaining a comfortable working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile on account slowdown in demand and volatility in raw material prices.

About the company

RDIL, incorporated in 1992, is an Ahmedabad-based company engaged in manufacturing and export of acid dyes, direct dyes and reactive dyes. RDIL's dye manufacturing facility (total installed capacity of 3,600 tonnes per annum) is located in Vatva (Gujarat). The company has recently received approval (from the Gujarat Pollution Control Board) for manufacturing H-acid (major raw material for manufacturing dyes) at its Khambat facility.

For FY2012-13, RDIL registered PAT of Rs.0.09 crore on revenues of Rs.62.75 crore, as compared with PAT of Rs.0.05 crore on revenues of Rs.48.92 crore for FY2011-12. The company's net worth (adjusted for revaluation reserve) stood at Rs.22.21 crore as on March 31, 2013, as compared with Rs.21.12 crore a year earlier. RDIL registered PAT of Rs.1.25 crore on revenues of Rs.71.20 crore during April 2013 to December 2013 9M FY 2014 (provisional).

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