Press Release

Rohan Dyes and Intermediates Limited

April 23, 2020

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr. (Enhanced from Rs. 13.00 Cr.)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Revised from ACUITE BB+; Indicative)
Short Term Rating	ACUITE A3+ (Revised from ACUITE A4+; Indicative)

** Refer Annexure for details*

Acuité has upgraded and assigned the long term rating to **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BB+' (read as ACUITE double B plus)** and the short term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.50.00 crore facilities of Rohan Dyes And Intermediates Limited (RDIL). The outlook is **'Stable'**.

Revision in rating

The revision in rating is driven by improvement in scale of operations along with profitability leading to healthy financial risk profile and liquidity position. The rating also factors in the longstanding presence of the company in chemical industry along with healthy relationship with its customers and suppliers which has led to consistent growth in revenues. The revenues have grown at a compound annual growth rate (CAGR) of about 11.71 per cent over the past four years through FY2019 and stood at Rs. 169.01crores in FY2019 as against Rs. 141.55 crore in FY2017.Further, the company has achieved revenues of Rs. 143.60 crore for 10MFY2020.

The operating and net profit margins also improved to 11.09 percent and 5.07 percent respectively in FY2019 as against 10.43 percent and 4.87 percent respectively in FY2018. Further, the financial risk profile has also improved on account of increase in networth, comfortable gearing levels and debt protection metrics. Further, ratings remains constrain due to expected slowdown in the domestic global economy on account of outbreak of COVID-19. However, the magnitude of impact at the current juncture is yet to be ascertain.

About Company

RDIL is an Ahmedabad, based company incorporated in 1992. The company is promoted by Mr. Radhe Shyam Agarwal and his son Mr. Rohan Agarwal. The company is engaged in manufacturing and export of synthetic organic dyes such as acid dyes, direct dyes and reactive dyes. The company mainly exports to European countries, China, South Korea and Taiwan to name few. RDIL has two manufacturing units in Gujarat with an aggregate installed capacity of 15,000 MT of dyes and intermediates at Khambhat and an installed capacity of 6000 MT of dyes at Vatva.

Further, company has ongoing backward integration project for manufacturing of inorganic products located at Anand, Gujarat. RDIL is installing a manufacturing unit for production of Sulphuric Acid 98% (300 TPD), Oleum 65 % (30 TPD), Chlorosulphonic acid (100 TPD), and Thionyl chloride (15 TPD). It is also under implementation of captive solar power plant of 2.10 MW. The commercial production of the new manufacturing unit is expected to start from May, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RDIL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

RDIL was incorporated in 1992 and is based in Ahmedabad, Gujarat, thus the company has a presence of over two decades of operations chemical industry. The company is promoted by Mr. Radheshyam Agarwal, who has an experience of over four decades and is supported by his son Mr. Rohan Agarwal, who possess an experience of two decades in the aforesaid industry. RDIL has establish its presence in domestic as well as in international market. The company mainly exports to European countries, China, South Korea and Taiwan among other countries which contributes 60.00 percent of total sales. The extensive experience of the promoters is reflected through the established longstanding relationships of over a decade with its customers and suppliers. Acuité believes that the company will continue to benefit from its established track record of operations and the experienced management will help RDIL in maintaining their operational efficiency in the medium term.

- **Healthy Financial risk profile**

The financial risk profile of company stood healthy marked by healthy net worth, comfortable gearing and coverage indicators. The tangible net worth of the company stood at Rs. 66.77 crore (includes quasi equity of Rs. 1.16 crore) as on 31 March, 2019 as against Rs. 57.04 crore as on 31 March, 2018. The gearing and TOL/TNW stood at comfortable at 0.31 times and 1.02 times respectively as on 31 March, 2019 over 0.11 times and 0.85 times respectively in the previous year. The total debt of Rs. 20.88 crore as on 31 March, 2019, majorly consist of term loans of Rs.6.81 crores and short term debt of Rs. 14.00 crore. The interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood comfortable at 15.56 times and 0.70 times, respectively, for FY2019 as against 22.00 times and 1.77 times, respectively, in FY2018. The decline in interest coverage ratio, although continues to remain healthy, is majorly on account of increase in long term borrowings in FY2019. The company reported healthy net cash accruals (NCA) of Rs. 14.63 crore in FY2019. The cash accruals are expected in the range of Rs. 13.50 to 15.50 crore, against debt repayment obligations of Rs. 2.50 to 4.60 crore over the next three years.

Further, gearing however is expected to moderate at around 0.60-0.75 times as on March 31, 2020 on the back of modular debt funded capex plan supported by the promoters in the form of equity infusion. RDIL, has ongoing capex on backward integration project for manufacturing of inorganic products at Anand, Gujarat with total cost of Rs.56.88 crores. The project is ~95 per cent completed as on 31 March 2020 and is expected to start the commercial operations by May 2020. However, on account of outbreak of COVID – 19 the commencement of new plant as per the scheduled timelines remains vulnerable. The project was funded by term loan of Rs.32.00 crores, unsecured loans of Rs.10.00 crores and rest from internal accruals. Acuité believes that the company will be able to sustain its existing financial risk profile in near to medium term backed by establish presence in the Industry, extensive experience of promoters, healthy net cash accruals and moderate debt funded capex. However, incremental working capital requirements amid commercialization of new project and moderate reliance on bank lines is not likely to impact majorly on the financial risk profile of the company over the near to medium term.

Weaknesses

- **Working capital intensive nature of operations**

The company operations are marked by moderate Gross Current Asset (GCA) days of 169 days in FY2019 and 150 days in FY2018. This is majorly on account of higher receivable and inventory days of 66 days and 77 days for FY2019 as against 64 days and 45 days for FY2018 respectively. The average bank limit utilization stood at about ~65 per cent for the last six months through February, 2020. The business is inherently working capital intensive because of higher inventory holding period as they need to cater different requirements of customers. Acuité believes that, with the nature of business and addition of new products in product mix, operations are expected to be working capital intensive over the medium term. Further, the RDIL's ability to improve stock rotation and efficiently managing working capital cycle will remain monitorable.

- **Intense competition, economic slowdown and regulatory risk**
  The company is exposed to intense competition in the industry marked by presence of large number of players. Intense competition limits the pricing flexibility and bargaining power of mid-sized players such as RDIL. Furthermore, growth of the dyestuff industry is largely dependent on the end user industries such as textile, Chemicals, leather and paper which are impacted by COVID-19 and demand is likely to remain sluggish. RDIL is regulated by the Gujarat Pollution Control Board with regulations regarding manufacture of products such as acid dyes, reactive dyes and dye intermediates and disposal of waste that are hazardous to the environment. Any adverse change in the regulations could affect the RDIL's business risk profile consequently affecting its credit risk profile. However, Acuité believes company's strategy to mitigate such risk by way of adding of new products in its products portfolio in timely manner has helped company in maintaining their operating and profitability margins.

Liquidity Position: Adequate

RDIL has adequate net cash accruals which stood at Rs. 14.63 crore in FY2019 and Rs. 11.50 crore in FY2018. The repayment obligation during the same period stood in the range of Rs. 0.15 - 0.20 crore giving the company adequate cushion to meet its repayment obligations for the same period. The company operations are marked by moderate Gross Current Asset (GCA) days of 169 days in FY2019 and 150 days in FY2018. The bank lines remained utilised at about 65 per cent for the last six months through February, 2020 reflecting moderate dependence on bank borrowing to fund its working capital requirement. The current ratio stood at 1.40 times as on 31 March 2019. Further, company has planned capital expenditure of Rs. 56.88 crores approx. which is funded by debt of Rs.32.00 crores which is likely to have moderate impact on debt protection metrics and liquidity profile of RDIL in near future.

Rating Sensitivities

- Sustaining existing scale of operations while maintaining profitability.
- Any elongation of working capital cycle leading to deterioration in debt protection metrics.
- Higher than expected capital expenditure leading to deterioration in capital structure.

Outlook: Stable

Acuité believes that RDIL will maintain a stable outlook over the medium term owing to its experienced management, established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' if the company registers strong growth in scale of operations while achieving improvement in profitability and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case lower-than-expected revenues and profitability margins or further deterioration in working capital cycle leading to liquidity pressures.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	169.01	150.22
PAT	Rs. Cr.	8.58	7.31
PAT Margin	(%)	5.07	4.87
Total Debt/Tangible Net Worth	Times	0.31	0.11
PBDIT/Interest	Times	15.56	22.00

Any other information

None

Any Material information

- **Ongoing Project:** if internal accruals fall short from Rs. 14.88 crore, the promoter will raise long term funds to the extent of short fall.
- The company to raise additional long term funds in case of DSCR goes down below minimum level of 1.50 times.

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
20- Nov- 2019	Cash Credit	Long Term	0.75	ACUITE BB+ (Downgraded from ACUITE BBB) Issuer not co-operating*
	Bills Discounting	Short Term	4.00	ACUITE A4+ (Downgraded from ACUITE A3+) Issuer not co-operating*
	PC/PCFC	Short Term	4.00	ACUITE A4+ (Downgraded from ACUITE A3+) Issuer not co-operating*
	Letter of credit	Short Term	4.00	ACUITE A4+ (Downgraded from ACUITE A3+) Issuer not co-operating*
	Proposed Short Term Loan	Short Term	0.25	ACUITE A4+ (Downgraded from ACUITE A3+) Issuer not co-operating*
10- Sept- 2018	Cash Credit	Long Term	0.75	ACUITE BBB Issuer not co-operating*
	Bills Discounting	Short Term	4.00	ACUITE A3+ Issuer not co-operating*
	PC/PCFC	Short Term	4.00	ACUITE A3+ Issuer not co-operating*
	Letter of credit	Short Term	4.00	ACUITE A3+ Issuer not co-operating*
	Proposed Short Term Loan	Short Term	0.25	ACUITE A3+ Issuer not co-operating*
08-Jul-2017	Cash Credit	Long Term	0.75	ACUITE BBB / Stable (Upgraded)
	Bills Discounting	Short Term	4.00	ACUITE A3+ (Upgraded)
	Packing Credit	Short Term	4.00	ACUITE A3+ (Upgraded)
	Letter of Credit	Short Term	4.00	ACUITE A3+ (Upgraded)
	Proposed Short Term Loan	Short Term	0.25	ACUITE A3+ (Assigned)
12-Mar-2016	Term Loan	Long Term	5.44	ACUITE BBB- / Stable (Withdraw)
	Cash Credit	Long Term	3.00	ACUITE BBB- / Stable (Reaffirmed)

	Bills Discounting	Short Term	11.00	ACUITE A3 (Reaffirmed)
	Standby Line of Credit	Short Term	1.00	ACUITE A3 (Withdraw)
	Packing Credit	Short Term	7.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	11.00	ACUITE A3 (Reaffirmed)

**The issuer did not co-operate; based on best available information.*

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE BBB/Stable (Upgraded from ACUITE BB+)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	9.00**	ACUITE A3+ (Upgraded from ACUITE A4+)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	4.00**	ACUITE A3+ (Upgraded from ACUITE A4+)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00*	ACUITE A3+ (Upgraded from ACUITE A4+)
Term loans	Jan-2019	Not Applicable	April -2028	32.00	ACUITE BBB/Stable (Assigned)
Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A3+ (Upgraded from ACUITE A4+)

**Includes sub-limit of Bank Guarantee of Rs.3.00 crore and capex LC with term loan limit of Rs.7.00 crore*
**Continuation of one way interchangeability from NFBWC to FBWC (CC/EP C/P CF C/F BD up to Rs.4.00 crore.)*
***Full interchangeability between FBWC Limits (i.e. between Cash Credit/Pre-shipment & Post-Shipment Export Finance)*

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Analyst – Senior Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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