

March 27, 2014

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	13.23	SMERA BBB-/Stable (Assigned)
Cash Credit	9.50*	SMERA BBB-/Stable (Assigned)
Letter of Credit	5.00^	SMERA A3 (Assigned)
Credit Exposure Limit	1.13	SMERA A3 (Assigned)

\* Includes a sublimit of Rs.8.50 crore for export packing credit

^ Includes a sublimit of Rs.0.25 crore for bank guarantee

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and a short-term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.28.86 crore bank facilities of Aries Colorchem Private Limited (ACPL). The outlook is '**Stable**'. ACPL's ratings draw comfort from the Aries Group's long track record of operations, strong financial risk profile and healthy profit margins. The ratings are also supported by the company's diversified product profile, strong customer base and experienced management. However, the ratings are constrained by the company's exposure to raw material price volatility and geographic concentration risk.

ACPL, incorporated in 2009, is an Ahmedabad-based company engaged in manufacturing and export of synthetic organic dyes and dyes intermediates. ACPL has recently set up a manufacturing unit in Daheja SEZ, Bharuch (Gujarat), with installed capacity of 10,800 metric tonnes per annum (MTPA) for synthetic organic dyes and 2,700 MTPA for dyes intermediates. The commercial production of dye intermediates commenced in November 2012 whereas production of synthetic organic dyes started in March 2013. The Aries Group has a strong financial risk profile marked by low leverage at 0.68 times as on March 31, 2013 and strong interest coverage ratio of 8.55 times in FY2012-13 (refers to financial year, April 01 to March 31). Moreover, the Aries Group has maintained healthy net profit margins (in the range of 6.00 per cent to 7.00 percent) during the last two years.

ACPL has a diversified product profile, which includes~40 variants of synthetic organic dyes used in the leather and textile industry. The Aries Group caters to ~200 customers across 20 countries. Although ACPL 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 hedge foreign exchange fluctuation risk. ACPL complies with the 'Registration, Evaluation and Authorization of Chemicals' (REACH) regulations prescribed by the European Commission.

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ACPL benefits from its experienced management. Mr. Kantilal Patel, director of ACPL, 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 company.

ACPL's profit margins are susceptible to raw material price volatility as the company's main inputs include benzene, toluene, xylene and naphthalene, which are derivatives of crude oil. Further, stringent pollution control norms have resulted in short supply of dyes intermediate in the domestic market. ACPL is also exposed to geographic concentration risk as the company's major customers are based in Europe.

### **Outlook: Stable**

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

### **About the company**

ACPL, incorporated in 2009, is an Ahmedabad-based company promoted by Mr. Kantilal Patel. ACPL is engaged in manufacturing and export of synthetic organic dyes.

ACPL has recently set up a manufacturing unit in Daheja SEZ, Bharuch (Gujarat), with installed capacity of 10,800 MTPA for synthetic organic dyes and 2,700 MTPA for dyes intermediates. The commercial production of dyes intermediates and synthetic organic dyes commenced in November 2012 and March 2013, respectively. The company caters to customers based in Italy, Spain, Netherlands, Argentina, United Kingdom, Greece and Turkey.

For FY2012–13, ACPL reported PAT of Rs.0.38 crore on operating income of Rs.7.97 crore (for three months of operations). Further, the company registered operating income of Rs.60.58 crore (provisional) during April 2013 to December, 2013. ACPL's net worth stood at Rs.4.88 crore as on March 31, 2013.

## About the group

The Aries Group, comprising ACPL, Aries Dye Chem Industries and Aries Organics Pvt Ltd, is engaged in manufacturing of synthetic organic dyes. The Aries group have common business model and management. The group has an installed manufacturing capacity of ~16,200 MTPA for synthetic organic dyes and 2,700 MTPA for dye intermediates.

For FY2012–13, the Aries Group reported PAT of Rs.10.46 crore on operating income of Rs.127.32 crore, as compared with PAT of Rs.6.20 crore on operating income of Rs.92.35 crore for FY2011–12. Further, the group reported operating income of Rs.154.15 crore (provisional) from April to December, 2013. The group's net worth stood at Rs. 47.20 crore as on March 31, 2013, as compared with Rs.33.98 crore a year earlier.

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