

July 22, 2014

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

* Includes a sublimit of Rs.7.00 crore for export packing credit

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

SMERA has upgraded the bank loan ratings of Aries Colorchem Private Limited (ACPL) to '**SMERA BBB/Stable/SMERA A3+**' from '**SMERA BBB-/Stable/A3**'. The upgrade is in view of the strong revenue growth registered by the company. The upgrade also factors in improvement in the company's financial risk profile. The ratings continue to draw comfort from the company's diversified product profile, reputed clientele and experienced management. However, the ratings are constrained by the company's exposure to raw material price volatility and geographic concentration risk.

Update

ACPL's revenue has increased from Rs.7.97 crore in FY2012-13 (refers to financial year, April 01 to March 31) to Rs.94.89 crore (provisional) in FY2013-14. The company's operating profit margin increased from 18.82 per cent in FY2012-13 to 20.71 per cent (provisional) in FY2013-14. ACPL's leverage (debt-equity ratio) has declined from 6.79 times as on March 31, 2013 to 3.62 times (provisional) as on March 31, 2014. The company's interest coverage ratio is healthy at 7.55 times (provisional) in FY2013-14.

ACPL's diversified product profile includes ~40 variants of synthetic organic dyes used in the leather and textile industries. Although ACPL is exposed to foreign exchange fluctuation risk, the company has a natural hedge (on ~60 per cent of its sales) arising from imports. Moreover, ACPL enters into forward contracts to hedge forex fluctuation risk. The company gains access to the European markets by complying with the 'Registration, Evaluation and Authorization of Chemicals' (REACH) regulations prescribed by the European Commission.

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

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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 main inputs include benzene, toluene, xylene and naphthalene, which are derivatives of crude oil. The company's profitability is thus exposed to raw material price volatility, which is intensified by the recent geopolitical tensions in Arab countries.

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 sustained growth in revenues and profitability while achieving a strong liquidity position. Conversely, the outlook will be revised to 'Negative' in case the company registers decline in revenues and profitability, or in case of deterioration in the company's 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 total 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 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 FY2013-14 (as per provisional financial statements), ACPL reported net profit of Rs.9.27 crore on operating income of Rs.94.89 crore, as compared with net profit of Rs.0.38 crore on operating income of Rs.7.97 crore in FY2012-13 (three months of operations). ACPL's net worth stood at Rs.13.77 crore (provisional) as on March 31, 2014, as compared with Rs.4.88 crore a year earlier.

About the group

The Aries Group comprises three entities viz. ACPL, Aries Dye Chem Industries and Aries Organics Private Limited. All the entities under the Aries Group are engaged in manufacturing of synthetic organic dyes. The group's installed manufacturing capacity stands at ~16,200 metric tonnes per annum (MTPA) for synthetic organic dyes and 2,700 MTPA for dye intermediates.

For FY2013-14 (as per provisional), the Aries Group reported profit after tax (PAT) of Rs.24.31 crore on operating income of Rs.224.23 crore, as compared with PAT of Rs.8.42 crore on operating income of Rs.125.30 crore for FY2012-13. The group's net worth stood at Rs.64.14 crore (provisional) as on March 31, 2014, as compared with Rs.47.20 crore a year earlier.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Sanjay Kher Head – Sales, Corporate Ratings Tel : +91 22 6714 1193 Cell: +91 98191 36541 Email : sanjay.kher@smera.in Web: www.smera.in	Umesh Nihalani – Head- Corporate Ratings, Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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