

Press Release

ARIES COLORCHEM PRIVATE LIMITED

29 January, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 28.86 Cr.
Long Term Rating	SMERA BBB+ / Outlook: Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long-term rating to '**SMERA BBB+**' (read as **SMERA triple B plus**) from '**SMERA BBB**' (read as **SMERA triple B**) and short-term rating to '**SMERA A2**' (read as **SMERA A two**) from '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs.28.86 crore bank facilities of Aries Colorchem Private Limited (ACPL). The outlook is 'Stable'.

SMERA has consolidated the business and financial risk profiles of ACPL, Aries Organics Private Limited (AOPL) and Aries Dye Chem Industries (ADCI) 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.

Key Rating Drivers

Strengths

• Financial risk profile continues to remain healthy

Aries group reported tangible network of Rs. 82.98 crore as on March 31, 2017 as compared to Rs. 63.79 crore as on March 31, 2016. The improvement in network is mainly on account of high profits for the group in FY17, which were impacted by a dividend of Rs. 15.17 crore paid by Aries Organics Private Limited during FY 2015-16 and drawings of Rs.10.03 made by Aries Dye Chem Industries during FY 2015-16. The long term debt is from promoters. Gearing stood at 0.43 times as on March 31, 2017 compared to 0.88 ending FY16.

• Healthy profitability margins in the business

The revenues of the group stood at Rs. 190.57 cr in FY17 at a growth of 25.43% over FY16 primarily driven by improvement in demand scenario with volumes growth of 25.7% in FY17. In FY16, the demand dropped due to sudden drop in H Acid prices in FY14/15 resulting in customers liquidating the available stocks. The operating profitability of Aries Group has improved to 18.34% in FY17 from 16.87% in FY16. The improvement in margins is mainly on account of economies of scale.

• Moderate liquidity profile

The WC days for the group stands at 118 ending FY17 improved from 144 days ending FY16 on account of lower inventory levels with stabilisation of RM prices. The debtor days stood at 77 compared to 97 in the previous year. ACPL has comfortable liquidity position as evident by average packing credit limit utilisation of ~17% during the last six months ended as on 31st Dec, 2017.

Weaknesses

• Vulnerability of profitability margins to fluctuations in raw material prices and exchange rate

Aries Group has procured around ~40% of its raw material through imports from Chinese suppliers while rest it

procures from local dye-intermediate suppliers. Aries maintains around inventory level of about 1 & 1.5 months as against order book of about 2 month. Any sharp decline in raw material prices may impact its operating margins.

• Intense competition from Indian and Chinese players

The intense competition in the industry limits pricing flexibility. Aries Group derives more than 80% revenue through exports and has natural hedge to the extent of raw material import, however for balance it follows partial hedging policy exposing it to foreign exchange fluctuation risk.

Analytical Approach

SMERA has consolidated the risk profiles of group companies ACPL, Aries Organics Private Limited (AOPL) and Aries Dye Chem Industries (ADCI) due to significant business and financial synergies.

Outlook: Stable

SMERA believes that the Aries group will continue to benefit over the medium term on account of the company's experienced management and established position in the dye & intermediates industry. The outlook may be revised to 'Positive' in case the company registers significant growth in cash accrual while maintaining its capital structure and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in company's revenue and profitability margins or significant deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Project

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	190.57	151.93	230.17
EBITDA	Rs. Cr.	34.96	25.63	37.00
PAT	Rs. Cr.	23.14	19.11	28.49
EBITDA Margin	(%)	18.34	16.87	16.08
PAT Margin	(%)	12.15	12.58	12.38
ROCE	(%)	26.95	19.65	29.40
Total Debt/Tangible Net Worth	Times	0.43	0.88	0.45
PBDIT/Interest	Times	9.98	17.68	13.95
Total Debt/PBDIT	Times	1.01	2.15	0.93
Gross Current Assets (Days)	Days	152	198	123

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition-<https://www.smera.in/criteria-default.htm>
- Manufacturing Entities-<https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios and Adjustments-<https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation of Companies-<https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

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<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
19 October, 2016	Export Packing Credit	10.00*	SMERA BBB (Reaffirmed)	-	Stable
	Letter of Credit	5.00	-	SMERA A3+ (Reaffirmed)	-
	Bank Guarantee	1.00	-	SMERA A3+ (Reaffirmed)	-
	Credit Exposure Limit	0.30	-	SMERA A3+ (Reaffirmed)	-
	Proposed Fund Based Facility	12.56	SMERA BBB (Assigned)		Stable
31 July, 2015	Term Loan	13.23	SMERA BBB (Withdrawn)	-	Stable
	Export Packing Credit	10.00*	SMERA BBB (Reaffirmed)	-	Positive
	Letter of Credit	5.00	-	SMERA A3+ (Reaffirmed)	-
	Bank Guarantee	1.00	-	SMERA A3+ (Reaffirmed)	-
	Credit Exposure Limit	0.30	-	SMERA A3+ (Reaffirmed)	-
22 July, 2014	Term Loan	13.23	SMERA BBB (Upgraded from SMERA BBB-)	-	Stable
	Cash Credit	9.50^	SMERA BBB (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)	-
	Term Loan	13.23	SMERA BBB- (Assigned)	-	Stable
	Cash Credit	9.50\$	SMERA BBB- (Assigned)	-	Stable

27 March, 2014	Letter of Credit	5.00@	-	SMERA A3 (Assigned)	-
	Credit Exposure Limit	1.13		SMERA A3 (Assigned)	-

* Fully Interchangeable with foreign bill discounting and includes a sub limit of cash credit facility to the extent of Rs. Rs.1.00 crore.

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

Includes a sublimit of Rs. 7.00 crore for bank guarantee

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

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB+/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERAA2
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A2
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	12.86	SMERA BBB+/Stable

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ABOUT SMERA

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