

## Press Release

### ARIES COLORCHEM PRIVATE LIMITED

February 25, 2019



#### Rating Upgraded and Withdrawn

<b>Total Bank Facilities Rated*</b>	Rs. 28.86 Cr.
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable (Upgraded from ACUITE BBB+/Stable)
<b>Short Term Rating</b>	ACUITE A2+ (Upgraded from ACUITE A2)

\* Refer Annexure for details

#### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE A-**' (**read as ACUITE A minus**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating to '**ACUITE A2+**' (**read as ACUITE A two plus**) from '**ACUITE A2**' (**read as ACUITE A two**) to the Rs.16.00 crore bank facilities of ARIES COLORCHEM PRIVATE LIMITED (ACPL). The outlook is '**Stable**'.

Further, Acuité has withdrawn the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) of Rs.12.86 crore bank facilities of ACPL. The rating is being withdrawn on account of request received from the company.

The upgrade is on account of steady growth in revenue, moderate profitability and healthy net cash accruals leading to improvement in debt protection metrics. Aries Group had recorded improvement in scale of operations marked by turnover of Rs.233.06 crore in FY2018 as compared to Rs.185.32 crore in FY2017 and Rs.149.47 crore in FY2016. The operating profitability of Aries Group had declined Y-o-Y but remained moderate at 16.24 percent in FY2018 as compared to 18.34 percent in FY2017 and 17.14 percent in FY2016. Further, the group has low reliance on bank facilities on account of healthy cash accruals which is reflected in low utilisation of bank limits.

ACPL, incorporated in 2009, is engaged in manufacturing of dyes and dye intermediates. The manufacturing unit is located at Dahej SEZ in Bharuch (Gujarat). ACPL is currently being managed by Mr. Kantilal Ishvarlal Patel. Entire production of intermediates is used for captive consumption by the Aries Group and entire production of synthetic organic dyes is sold to customers based in Italy, Spain, Netherlands, Taiwan and China.

#### Analytical Approach

Acuité has consolidated the business and financial risk profiles of Aries Colorchem Private Limited (ACPL), Aries Organics Private Limited (AOPL) and Aries Dye Chem Industries (ADCI) together referred to as 'Aries Group'. The consolidation is in view of the common ownership, similar business models and significant operational and financial linkages between the three companies.

#### Key Rating Drivers

##### Strengths

- Established track record of operations and experienced management**

Aries Group has been engaged in manufacturing of synthetic organic dyes for more than four decades with presence outside India as well. Mr. Kantilal Ishvarlal Patel (Founder Director) has extensive experience of almost four decades in the dyestuff industry. Mr. Kantilal Ishvarlal Patel is supported by second generation management; Mr. Arish Patel (son of Mr. Kantilal Ishvarlal Patel) has been associated with Aries Group for over a decade. The management is ably supported by a well-qualified and experienced team of professionals. The extensive experience of the promoters in the industry has helped the group build its market presence in India and abroad.

- **Healthy financial risk profile**

Aries Group's financial risk profile is healthy marked by healthy net worth and debt protection measures, and low gearing. The net worth of the group increased to Rs.112.59 crore as on March 31, 2018 as against Rs.82.89 crore in the previous year on account of retention of profits and infusion of capital of Rs.4.48 crore in ADCI. Aries Group has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.91 times over the last three years through 2016-18. Total debt of Rs.33.80 crore as on March 31, 2018 includes preference share capital of Rs.7.50 crore, which was held by the promoter's family and has been redeemed at par during FY2019, unsecured loans by promoter and others of Rs.21.37 crore and working capital borrowing of Rs.4.93 crore. The gearing has improved to 0.30 times on 31 March, 2018 as compared to 0.43 times as on March 31, 2017. The interest coverage ratio (ICR) stood healthy at 10.56 times in FY2018 as against 9.98 times in FY2017.

The decline in operating margins during FY18 vis-à-vis FY17 offset by improvement in turnover has resulted in net cash accruals of Rs.28.59 crore for FY2018 as compared to Rs.26.19 crore in FY2017. Debt/EBITDA stood healthy at 0.88 times as on March 31, 2018 as against 1.01 times as on March 31, 2017. Considering robust cash accruals and repayment of preference share capital, Acuité expects that the group will maintain its financial risk profile over near to medium term.

### **Weaknesses**

- **Vulnerability of profitability margins to fluctuations in raw material prices and foreign exchange rate**

Aries Group procures around ~45 percent of the raw material through imports from Chinese suppliers while rest is procured from local dye-intermediate suppliers. The group maintains inventory level of about 1.0-1.5 months as against order book of about 2 months. Any sharp decline in raw material prices may impact its operating margins. Aries Group derives more than 90 percent revenues through exports and has natural hedge to the extent of raw material imports, however for balance, it follows partial hedging policy exposing it to foreign exchange fluctuation risk.

- **Regulatory risk**

ACPL 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 group's business risk profile consequently affecting its credit risk profile.

### **Liquidity Position:**

Aries Group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.7.10 crore- Rs.28.59 crore during the last three years through 2017-18, while its maturing debt obligations were Rs.7.38 crore over the same period. The group is not expected to have any long term repayment obligations in the near term. However, net cash accruals to total debt (NCA/TD) of the group stood at 0.85 times for FY2018 (PY: 0.74 times). The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 180 in FY 2018 and the same is reflected in lower reliance on working capital borrowings.

The cash credit limit of the group remains utilised at 25 percent during the last 12 months period ended January 2019. The group maintained unencumbered cash and bank balances of Rs.3.99 crore as on March 31, 2018. The current ratio of the group stood at 5.50 times as on March 31, 2018. The group is not likely to incur any major capex over the medium which is to be funded by external borrowing. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

### **Outlook: Stable**

Acuité believes that Aries group will maintain 'Stable' outlook over the medium term on account of their established position in the dye stuff industry and extensive experience of the management. The outlook may be revised to 'Positive' in case the group registers significant growth in cash accruals while maintaining the capital structure and liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in the group's revenue or profitability margins, elongation of working capital cycle or significant deterioration in the financial risk profile due to debt-funded capital expenditure.

### About the Group

Gujarat based Aries Group consists of ACPL, AOPL and ADCI. Aries Group has been engaged in manufacturing of synthetic organic dyes since 1980. The group mainly caters to manufacturers and traders belonging to textile and leather industries. The group is promoted by Mr. K. I. Patel and his son, Mr. Arish Patel. Aries Group has total installed capacity of 9,200 MTPA for dyes and 2,700 MTPA for dye intermediates.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	233.06	185.32	149.47
EBITDA	Rs. Cr.	37.86	34.96	25.63
PAT	Rs. Cr.	25.13	23.14	19.11
EBITDA Margin	(%)	16.24	18.86	17.14
PAT Margin	(%)	10.78	12.49	12.79
ROCE	(%)	26.13	26.95	19.65
Total Debt/Tangible Net Worth	Times	0.30	0.43	0.91
PBDIT/Interest	Times	10.56	9.98	17.68
Total Debt/PBDIT	Times	0.88	1.01	2.18
Gross Current Assets (Days)	Days	180	156	201

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Jan-2018	Packing Credit	Long Term	10.00*	ACUITE BBB+ / Stable (Upgraded)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded)
	Proposed Bank Facility	Long Term	12.86	ACUITE BBB+ / Stable (Upgraded)
19-Oct-2016	Packing Credit	Long Term	10.00*	ACUITE BBB / Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Derivative Exposure	Short Term	0.30	ACUITE A3+ (Reaffirmed)

	Proposed Working Capital Demand Loan	Long Term	12.56	ACUITE BBB / Stable (Assigned)
31-Jul-2015	Term Loan	Long Term	13.23	ACUITE BBB / Stable (Withdrawn)
	Packing Credit	Long Term	10.00*	ACUITE BBB / Positive (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Derivative Exposure	Short Term	0.30	ACUITE A3+ (Reaffirmed)

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

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE A-/ Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	12.86	ACUITE A- (Withdrawn)

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

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**About Acuité Ratings & Research:**

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