

Press Release

Aries Colorchem Private Limited

May 08, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.45.00 Cr. (Enhanced from Rs.16.00 Cr.)
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) the short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.45.00 Cr of Aries Colorchem Private Limited (ACPL). The outlook is '**Stable**'.

ACPL was incorporated in 2009 by Mr. Kantilal Ishvarlal Patel. ACPL is engaged in manufacturing of dyes and dye intermediates. The manufacturing unit is located at Dahej SEZ in Bharuch (Gujarat). The company derives revenue majorly through exports to Italy, China, Spain, Argentina and others.

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' (AG). The consolidation is in view of the common ownership, similar business models of three companies.

Key Rating Drivers

Strengths

- **Experienced management and improving business risk profile**

AG is being managed by Mr. Kantilal Ishvarlal Patel, possesses extensive experience of more than two decades of handling businesses. Mr. Kantilal Ishvarlal Patel is well supported by second line of generation, Mr. Arish Kantilal Patel. The extensive experience of the promoters has helped AG to establish healthy relations with reputed clientele in international market as well as in local market.

AG has registered turnover of Rs.246.75 crore in FY2019 growth of ~6% from Rs.233.06 crore in FY2018. The turnover stood at Rs.185.32 crore in FY2017. The growth is mainly supported by increase in orders from existing and new customers.

Acuité believes that AG's long operational track record is expected to support in improvement of the business risk profile over the medium term.

- **Healthy financial risk profile**

AG's financial risk profile is healthy, marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of AG is healthy at around Rs.127.03 crores as on March 31, 2019 as against Rs.112.59 crore as on March 31, 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves.

The AG has followed conservative financial policy, the same is reflected through its peak gearing in the past around 0.43 times as on March 31, 2017, and improved marginally to 0.20 times as on March 31, 2019. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 0.30 times as on March 31, 2019 as against 0.46 times as on March 31, 2018. The total debt of Rs.25.46 as on March 31, 2019 comprising of unsecured loans from promoters to the tune of Rs.25.22 crore and working capital borrowings to the tune of Rs.0.23 crore. The group is undergoing capital expenditure plan in terms of backward integration of Rs.43.00 crore at Saykha Industrial Estate, Gujarat. Term loans of Rs.18.00 crore has been sanctioned from the bank in FY2020 and rest is funded through internal accruals. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 0.30 times as on March 31, 2019 as against 0.46 times as on March 31, 2018. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 11.66 times and 9.45 for FY2019 against 10.56 times and 2.93 times for FY2018, respectively. This is due to the steady growth in operations. NCA/TD stood healthy at 1.15 times in

FY2019 as against 0.85 times in FY2018. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term.

• **Moderate working capital intensive operations**

The operations of AG are managed moderately marked by GCA days of 166 in FY2019, an improvement from 180 in FY2018. The GCA days are mainly dominated by debtor days stood at 75 days for FY2019 as against 87 days in FY2018. The debtor's days are high due to extended credit period being offered to the customers. AG has inventory days of 65 days in FY2019 as against 73 days in FY2018. Further, creditor days has showed its peak at 31 days in FY2018 and reduced to 21 days in FY2019, which moderates the reliance on working capital requirements.

Acuité believes that the efficient working capital management will be crucial for the AG in order to maintain a stable credit profile.

Weaknesses

• **Intense competition, economic slowdown and regulatory risk**

The group 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 midsized players such as AG. 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. AG 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 AG's business risk profile consequently affecting its credit risk profile. However, Acuité believes AG's strategy to mitigate such risk by way of adding of new products in its products portfolio in timely manner has helped group in maintaining their operating and profitability margins.

Liquidity position: Adequate

AG has strong liquidity marked by healthy net cash accruals to no maturing debt obligations. The group generated cash accruals of Rs.26.19-29.21 crore during the last two years through FY2019 against no maturing debt obligations over the same period. The cash accruals of the group are estimated to remain around Rs.22-24 crore during 2020-22, while its repayment obligation are estimated to be around Rs.3-4 crore. The working capital operations of the group are moderately managed marked by gross current asset (GCA) days of 166 in FY2019. The cash credit limit remains utilised at 37 percent during the last six months ended December 2019. The group maintains unencumbered cash and bank balances of Rs.6.40 crore as on March 31, 2019. The current ratio stands at 9.56 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accrual against repayments over the medium term.

Rating Sensitivity

- Timely completion of project and expected to improve profitability, as it is in nature of backward integration
- Elongation in working capital cycle

Material covenants

None

Outlook: Stable

Acuité believes that the outlook on AG will remain 'Stable' over the medium term on account of the experienced management and its improving business risk profile. The outlook may be revised to 'Positive' in case of timely completion of capital expenditure plan which in turn improves profitability of the group. The outlook may be revised to 'Negative' in case the group there is deterioration in the profitability and elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	246.75	233.06
PAT	Rs. Cr.	25.50	25.13
PAT Margin	(%)	10.33	10.78

Total Debt/Tangible Net Worth	Times	0.20	0.30
PBDIT/Interest	Times	11.05	10.56

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Feb-2019	Packing Credit	Long Term	10.00	ACUITE A- / Stable (Upgraded from ACUITE BBB+ / Stable)
	Letter of Credit	Long Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Proposed Bank Facility	Short Term	12.86	ACUITE A- (Withdrawn)
28-Mar-2018	Packing Credit	Long Term	10.00	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB / Stable)
	Letter of Credit	Long Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Long Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Short Term	12.86	ACUITE BBB+ / Stable (Upgraded from ACUITE BBB / Stable)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	24.00 (Enhanced from Rs.10.00 crore)	ACUITE A- / Stable (Reaffirmed)
Term Loan	June-2019	Not Applicable	April-2014	15.00	ACUITE A- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ (Reaffirmed)

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About Acuité Ratings & Research:

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