

Press Release

Aries Colorchem Private Limited

August 04, 2021



Rating Reaffirmed and Withdrawn

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Short Term Rating	ACUITE A2+ (Reaffirmed and Withdrawn)

* Refer Annexure for details

Rating Rationale

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

Also, Acuité has reaffirmed and withdrawn the short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.1.00 crore bank facilities of ACPL.

About the Company

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. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and improving business risk profile

AG is being managed by Mr. Kantilal Ishvarlal Patel, who has 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.

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.136.95 crores as on March 31, 2021 as against Rs.123.39 crore as on March 31, 2020. The group has followed conservative financial policy, the same is reflected through its peak gearing in the past around 0.53 times as on March 31, 2021. The total outside liabilities to tangible net worth (TOL/TNW) level stood at 0.77 times as on March 31, 2021 as against 0.50 times as on March 31, 2020. The total debt of Rs.71.94 as on March 31, 2021 comprising of unsecured loans from promoters to the tune of Rs.57.63 crore, term loan of Rs. 7.64 crore and working capital borrowings to the tune of Rs.6.68 crore. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 15.80 times and 5.78 for FY2021 against 11.80 times and 10.29 times for FY2020, respectively. This is due to the steady growth in operations and profitability. NCA/TD stood at 0.43 times in FY2021 as against 0.66 times in FY2020.

Acuité believes that the financial risk profile is expected to be at similar levels over the medium term on

account of healthy accruals.

Weaknesses

- **Working capital intensive nature of operations**

The operations of AG are working capital intensive marked by GCA days of 265 in FY2021 (Prov) as compared to 154 days in FY2020. The GCA days are mainly dominated by debtors and inventory of 109 days and 126 days for FY2021 (Prov) as against 72 days and 53 days in FY2020 respectively. The debtor days are high due to extended credit period being offered to the customers due to covid. The inventory has piled up in FY2021 due to weak market demand. However, the reliance on external borrowings has remained low as reflected by average bank limit utilisation of ~16 per cent for the last 8 months ended 30 June, 2021. Acuité believes that the efficient working capital management will be crucial to the AG in order to maintain a stable credit profile.

- **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.

Rating Sensitivities

- Significant and sustained growth in operating revenues while maintaining the profitability.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenants

None

Liquidity Position – Strong

AG has strong liquidity marked by healthy net cash accruals as compared to maturing debt obligations. The group generated cash accruals of Rs.28.59-30.70 crore during the last four years through FY2021 against maturing debt obligations of Rs. ~3.60 crore over the same period. The cash accruals of the group are estimated to remain around Rs. 30-35 crore during 2022-24, while its repayment obligation are estimated to be around Rs.10.00 crore. The working capital operations of the group are moderately managed marked by gross current asset (GCA) days of 265 in FY2021. The bank limit remains utilised at ~16 percent during the last eight months ended 30 June 2021. The group maintains unencumbered cash and bank balances of Rs.2.15 crore as on March 31, 2021. The current ratio stands at 3.53 times as on March 31, 2021. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual against repayments over the medium term.

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 sufficiently higher than expected growth in accruals and a further strengthening in business risk profile. 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	188.47	253.75
PAT	Rs. Cr.	18.28	25.45
PAT Margin	(%)	9.70	10.03
Total Debt/Tangible Net Worth	Times	0.53	0.36
PBDIT/Interest	Times	15.80	11.80

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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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
08-May-2020	Packing Credit	Long Term	24.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
25-Feb-2019	Packing Credit	Long Term	10.00	ACUITE A-/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 A- (Upgraded & Withdrawn)
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)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A-/ Stable (Reaffirmed)
State Bank of India	Term Loan	25-Oct-2019	Not Applicable	20-Mar-2025 (Reduced from Rs.15.00 Cr)	10.63	ACUITE A-/ Stable (Reaffirmed)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)

State Bank of India	Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+ (Withdrawn)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.37	ACUITE A-/ Stable (Reaffirmed)

Export Packing Credit of Rs.24.00 Cr includes sublimit of FBD/EBR of Rs.24.00 and cash credit of Rs.10.00 crore.

Letter of Credit of Rs.5.00 Cr includes sublimit of Bank Guarantee of Rs. 2.00 crore.

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About Acuité Ratings & Research:

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