

Press Release
Aries Colorchem Private Limited
November 02, 2022
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	40.00	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	5.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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'**.

Rationale for rating

The rating considers extensive experience of the management, long track record of operations, and healthy revenue growth during FY2022. The revenue stood at Rs. 298.75 Cr during FY2022 against Rs.188.45 Cr. in FY2021. Further the rating derives comfort from the healthy financial risk profile, strong liquidity, and comfortable debt protection metrics of ACPL. The rating is however constrained on account of intensive working capital operations, stiff competition faced through other players and regulatory risk.

About 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.

About the Group

Gujarat based Aries Group (AG) constitutes of Aries Colorchem Private Limited (ACPL) incorporated in 2009, Aries Organics Private Limited (AOPL) incorporated in 1995 and Aries Dye Chem Industries (ADCI) incorporated in 1980. Aries group is engaged in manufacturing of synthetic organic dyes and dye intermediates. AG mainly exports to manufacturers and traders of textile and leather industries. The group is promoted by Mr. Kantilal Ishvarlal Patel.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite 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, who has extensive experience of more than two decades in the Dye business. 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. 156.78 Cr. as on March 31, 2022 against Rs.136.69 crores as on March 31, 2021 as against Rs.123.39 crore as on March 31, 2020. AG has been following a conservative financial policy, the same is reflected through its peak gearing at around 0.59 times as on March 31, 2022 against 0.53 times as on March 31, 2021. The gearing has marginally increased as the group has enhanced its short-term working capital facilities. Going forward, the gearing is expected to improve significantly as the group has repaid all its entire term loan in advance. The gearing is expected to stand at around 0.49 times during FY2023. Further, the total outside liabilities to tangible net worth (TOL/TNW) level stood at 0.83 times as on March 31, 2022 against 0.77 times as on March 31, 2021. The total debt of Rs.92.02 Cr. as on March 31, 2022 comprises of unsecured loans from promoters to the tune of Rs.53.56 crore, and working capital borrowings to the tune of Rs.38.33 Cr. The group does not have any long term loans as the same have been repaid in FY2022. The debt protection metrics are healthy marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 10.26 times and 4.86 times for FY2022 against 11.97 times and 4.77 times for FY2021, respectively. NCA/TD stood at 0.36 times in FY2022 as against 0.38 times in FY2022.

Acuité believes that the financial risk profile is further expected to improve over the medium term, in absence of any additional borrowings

Weaknesses

Working capital intensive operations

The operations of AG are working capital intensive marked by although improved but high GCA days of 217 in FY2022 as compared to 267 days in FY2021. The GCA days are mainly dominated by debtor days and inventory days of 110 and 84 in FY2022 against 109 days and 128 days for FY2021 respectively. The debtor's days are high due to extended credit period being offered to the customers. The inventory which was piled up in FY2021 due to weak market demand and covid, has been utilized during current year and same can be seen in the improved inventory days. The working capital limits stood utilised at around 53%. The group majorly works on cash basis and does not avail longer credit period from its suppliers. The creditors days have stood at around 57 days in FY2022 against 88 days in FY2021.

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

Intense competition leading to vulnerability in pricing along with 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 mid-sized 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. 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.

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.29.48-33.10 crore during the last three years through FY2022 against maturing debt obligations of Rs. ~3.60 crore over the same period. The cash accruals of the group are estimated to remain at around Rs. 40-45 crore during FY2023-24, while its repayment obligations are expected to remain nil as currently the group does not intend to borrow any long term debt. The working capital operations of the group are moderately managed marked by gross current asset (GCA) days of 217 in FY2022. The cash credit limit remains utilised at ~53 percent during the last six months ended July 2022. The group maintains unencumbered cash and bank balances of Rs.3.18 crore as on March 31, 2022. The current ratio stands at 2.41 times as on March 31, 2022. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals against nil repayments.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	298.75	188.45
PAT	Rs. Cr.	23.89	19.30
PAT Margin	(%)	8.00	10.24
Total Debt/Tangible Net Worth	Times	0.59	0.53
PBDIT/Interest	Times	10.26	11.97

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

None

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Aug 2021	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Withdrawn)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	10.63	ACUITE A- Stable (Reaffirmed)
	Packing Credit	Long Term	24.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.37	ACUITE A- Stable (Reaffirmed)
08 May 2020	Packing Credit	Long Term	24.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
25 Feb 2019	Proposed Bank Facility	Long Term	12.86	ACUITE A- (Withdrawn)
	Packing Credit	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	1.00	ACUITE A2+ (Upgraded from ACUITE A2)
29 Jan 2018	Packing Credit	Long Term	10.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	1.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	12.86	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
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)
		Short		

	Derivative Exposure	Term	0.30	ACUITE A3+ (Reaffirmed)
22 Jul 2014	Term Loan	Long Term	13.23	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	9.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Derivative Exposure	Short Term	1.13	ACUITE A3+ (Upgraded from ACUITE A3)
27 Mar 2014	Term Loan	Long Term	13.23	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Derivative Exposure	Short Term	1.13	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	31.90	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.37	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Oct 25 2019 12:00AM	8	Not available	0.73	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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