

**Rating Rationale**

19 Nov 2020

**Asiatic Colour Chem Industries Ltd.**

**Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 60.00 Crores of Asiatic Colour Chem Industries Ltd. (hereinafter referred as the “Company” or “ACCIL”).**

**Particulars**

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2020)	Present
<b>Fund Based</b>	<b>37.00</b>	<b>37.00</b>	<b>Long Term</b>	<b>BWR BB+ (Stable) Issuer not cooperating*</b>	<b>BWR BBB - (Stable) Removal from Issuer not cooperating# category (Upgraded)</b>
<b>Non-fund Based</b>	<b>23.00</b>	<b>23.00</b>	<b>Short Term</b>	<b>BWR A4+ Issuer not cooperating*</b>	<b>BWR A3 Removal from Issuer not cooperating# category (Upgraded)</b>
<b>Total</b>	<b>60.00</b>	<b>60.00</b>	<b>INR Sixty Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings.

# Issuer did not cooperate; on the basis of best available information.

Complete details of Bank facilities is provided in Annexure-I

**Ratings: Revised to BWR BBB- (Stable)/A3 and removed from ‘Issuer non Cooperation’ Category.**

**RATING ACTION / OUTLOOK**

BWR has considered the standalone financials of the Company and essentially relied upon the audited financial statements upto FY20, projected financial upto FY22 and publicly available information and clarifications provided by the entity’s management.

The rating revision draws strength from modest level of operation income, low gearing backed by comfortable net worth, and vast business experience of nearly four decades of the promoters in the line of manufacturing and trading of dyes and intermediates. The company also benefits from financial support by the promoters and clientele reach in different geographies, given the presence in established domestic as well as international markets. The ratings are, however,



constrained by intense competition in the market and risks associated with volatility in the prices of dye and intermediates, and forex rates.

BWR believes that the business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced management:** - ACCIL has an established track record since 1995 in the dyes and intermediates business and has product offerings catering to leather and fabric industries. The Company is promoted and managed by Mr. Mahesh Agarwal and family. The Company has established a market position in different geographies and longstanding relations with international/domestic clients.
- **Modest scale of operations:** ACCIL's Revenue trend has remained modest over the last couple of fiscals. Total operating income (TOI) was Rs. 203.10 Crs in FY20 as against Rs. 224.77 Crs in FY19. Sales comprises a mix of direct export (43%) to South Korea, Italy Singapore etc, domestic merchant export sales (46%) and trading (11%) in FY20. A marginal dip of 10% occurred due to early impacts of corona pandemic in Asian Countries in the last quarter of FY20. As informed by the management the company has achieved the sales of Rs. 106.21 crs in the 7MFY21, and having healthy orders which will provide the achievability of projected sales in FY21.
- **Financial risk profile :** The Company's financial risk profile is comfortable, marked by low gearing at 0.77x in FY19 against 0.79x in FY20 on back of healthy capital structure and absence of any long-term debts. As on 31st March, 2020, the tangible net worth is Rs. 52.87 Crs and TOL/TNW at 1.24x and 1.55 in FY19 & FY20 respectively. Further, the promoters have extended their support by infusing the interest free unsecured loans upto Rs. 3.36 Crs in FY20. Going forward, in absence of any current debt obligations and improvement in business operation after the nationwide lockdown the financial risk profile may remain comfortable in the near term.

### Credit risks:

- **Exposure of profitability to fluctuations in raw material prices and foreign exchange rate** – The margins remain susceptible to adverse fluctuations in prices of raw material and foreign exchange rates. Around 40-50% of the raw material is being imported from countries like China, Turkey etc. The forex fluctuation risk is partly mitigated through natural hedging in few instances against the import and majority of the payments backed by LCs which averts the counterparty payment risks. Operating Profit Margin has dipped from 3.62% to 2.72% and net profit margin reduced from 1.40% to 0.42% in the last two fiscals. This led to weak debt protection metrics i.e ISCR at 1.03x and DSCR at 1.30x.

- **Stiff competition from large organised players** – Chemical trading industry being a highly fragmented industry, is characterized by intense competition from various large and small players. The increased competition limits the bargaining power of ACCIL. This leads to stiff competition in the market and exerts pricing pressure on the company. Revenue and profitability are susceptible to any unfavourable impact of amendments in government policies with respect to pollution control, product toxicity, and change in the import policies of foreign countries.

## **RATING SENSITIVITIES**

### **Positive:**

Substantial growth in revenue and profitability while maintaining working capital cycle and gearing at current levels, infusion of funds by promoters as and when required, improvement in debt protection metrics at 1.50x and timely collection of payments will be key rating positives.

### **Negative:**

Lower than expected growth in operating income, deterioration in gearing and debt coverage metrics, profitability, increased level of debt will be key rating sensitivities.

## **LIQUIDITY POSITION: Adequate**

Liquidity position remained adequate given the comfortable cash accruals and absence of any long term liabilities. Net cash accruals are Rs. 4.09 Crs in FY19 and Rs. 1.84 Crs in FY20. Since the operations are working capital intensive the average working capital utilization remained high at 91% in the last six months ending on 31.10.2020. Current ratio is comfortable at 1.70x and 1.56x in the last two fiscals. Conversion cycle is elongated from 95 to 118 days in the last two fiscals on account of extended credit period to local customers. BWR expects that the liquidity position of the company will remain comfortable as 6 monthly moratorium benefits have been availed, Covid line of emergency of Rs. 6.00 Crs has been sanctioned (yet to be disbursed) by the lender and interchangeability of non fund limits to cash limit upto Rs 5 Crs. Repayment of accumulated interest has been started since November, 2020.

## **COMPANY PROFILE**

Incorporated in the year 1995, ACCIL is a closely-held public limited company. The company is promoted and managed by Mr. Mahesh Agarwal & his son Mr Vibhor Agarwal. ACCIL is engaged in manufacturing and exports of dyes and pigments which are primarily used in the leather and fabric industry. The Company's manufacturing unit is located at Ahmedabad with 100% export orientation.

## **KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : Not Applicable**

**KEY FINANCIAL INDICATORS (in ₹ Cr)**

Key Parameters	Units	FY19	FY20
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Income	₹ in Cr	224.77	203.10
EBITDA	₹ in Cr	8.13	5.52
Net Profit	₹ in Cr	3.15	0.85
Tangible net worth	₹ in Cr	52.01	52.87
Debt/Tangible net worth	Times	0.77	0.79
Current Ratio	Times	1.70	1.56

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable**

**RATING HISTORY**

Facilities	Current Rating (2020)^			Rating History		
	Tenure	Amount (₹ Cr)	Rating	25Sept2020	19July2019	22Mar2018
<b>Fund Based</b>	<b>Long Term</b>	<b>37.00</b>	<b>BWR BBB - (Stable) Removal from Issuer not cooperating# category (Upgraded)</b>	<b>BWR BB+ (Stable) Issuer not cooperating*</b>	<b>BWR BBB- (Stable)</b>	<b>BWR BBB+ (Stable) Issuer not cooperating*</b>
<b>Non Fund Based</b>	<b>Short Term</b>	<b>23.00</b>	<b>BWR A3 Removal from Issuer not cooperating# category (Upgraded)</b>	<b>BWR A4+ Issuer not cooperating*</b>	<b>BWR A3</b>	<b>BWR A3 Issuer not cooperating*</b>
<b>Total</b>		<b>60.00</b>	<b>INR Sixty Crores Only</b>			

^Moved to “Not Reviewed” category on 20th July, 2020.

# Issuer did not cooperate; on the basis of best available information.

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

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### Asiatic Colour Chem Industries Ltd - ANNEXURE I

#### Details of Bank Facilities rated by BWR

Sl.No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	<b>Fund Based</b> EPC/PCFC/FBD/EBR Stand-by Line of Credit (SLC) Cash Credit/(WC DL Sublimit)	<b>33.00</b>  <b>4.00</b>  <b>(15.00)</b>	-  -  -	<b>37.00</b>
2	State Bank of India	<b>Non-Fund Based</b> Letter of Credit (SBLC for availing buyers credit ) Bank Guarantee (Sublimit of LC) Credit Exposure Limit	- - - -	<b>22.00</b> <b>(22.00)</b> <b>(1.00)</b> <b>1.00</b>	<b>23.00</b>
		<b>Total</b>	<b>37.00</b>	<b>23.00</b>	<b>60.00</b>

**Total ₹ Sixty Crores Only.**



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**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.