DRT Anthea Aroma Chemicals Pvt. Ltd.

January 8, 2019

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.24 (reduced from Rs.38.00 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Reaffirmed
Short Term Bank Facilities	86.00	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**111.24 (Rupees One hundred Eleven crore and Twenty Four lakh only)**		

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from 'credit watch with developing implication' on account of clarity of operations at its principal plant as well as its impact on the credit risk profile of the company. The on-going capex towards rebuilding the principal plant is nearing completion and expected to commence commercial operations by end of March 2019.

The reaffirmation of the ratings assigned to the bank facilities of DAACPL continues to factor in the extensive experience of the management team, global presence of the JV partner in perfumery chemical business providing wide market access to the company and the company's raw materials procurement arrangement with DRT France.

Furthermore, the rating continue to derive strength from its steady operating performance characterised by growth in revenues, stable profitability and cash accruals coupled with healthy capital structure and debt coverage indicators along with comfortable liquidity position in FY18 (refers to the period from April 01 to March 31).

The ratings strengths are however tempered by the presence of product and customer concentration risk, modest size of operations, susceptibility of the company's profit margins towards volatility in raw material prices and currency fluctuation, working capital intensive nature of the business and low project risk. The ratings also factors in temporary decline in operational performance during H1FY19 due to fire at its major plant and moderation in liquidity position.

Going forward, successful commencement of the reconstructed plant as per envisaged timelines leading towards improvement in its operating profit margins and cash flows along with maintenance of capital structure at comfortable levels remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management team

Dr. Vincent Paul has an extensive experience of over five decades in organic & aromatic chemicals. He is assisted by his sons Dr. Paul V. Menacherry and Mr. Mathew Menacherry, each having more than two decades of experience in the industry. Over the years, the group has relied on its research and development team headed by Dr. Vincent Paul (Director) along with Dr. Paul Vincent V. Menacherry (Managing Director/Director technology), and business development team led by Mr. Mathew Menacherry (Director) to grow its scale.

Dr. Vincent Paul, Dr. Paul V Menacherry and Mr. Mathew Menacherry are assisted by well experienced and qualified professionals in different operations of the company.

Global presence of the JV partner in the perfumery business providing wide market access

DRT has been present in the development of rosin and turpentine extracted from pine resin since 1931. Turpentine is widely used in the synthesis of fragrant chemical compounds. More than eight decades of established presence in the industry has helped DRT to gain access with global F & F (flavour and fragrance) behemoths as its customers. Such long-standing relationships of DRT with top flavour and fragrance industry giants have helped DAACPL to attain an easy access to the international markets. For the year ending March 31, 2018, exports formed 86.20% of the company's sales.

Particulars	**FY17**		**FY18**	
Sales value (Rs cr)	**Amt**	***% of total sales***	**Amt**	***% of total sales***
Local Sales	34.27	15.53	33.27	13.80
Export Sales	186.35	84.47	207.76	86.20
Total Gross Sales	**220.62**	100.00	**241.04**	100.00

Low cyclicality in the products demand

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The products manufactured by the company find its application in fragrance and cosmetics industry. Owing to low cyclicality in the demand from these sectors, the volatility in the company's revenue is also generally low.

Total operating income continues to grow on back of robust demand of DHM
In February 19, 2018 the company's manufacturing plant consisting of more than 80% of the capacity was destroyed in fire, resulting into loss of sales of more than a month. Nonetheless, the company's total operating income grew by 9.76% on Y-o-Y basis as rise in DHM demand led to increase in realizations, and 17.72% growth in sales volume as compared to FY17.

Steady operational performance in FY18; albeit, temporarily declined in H1FY19
The company's PBILDT margin continues to be healthy at 23.96% in FY18; however, it declined marginally on y-o-y basis as compared to 27.28% earned in FY17 on account of increase in raw materials cost.
Moreover, in order to retain its major customers, the company has partially outsourced its manufacturing resulting into decline in profit margins during H1FY19. Moreover, as the reconstruction of the plant is expected to complete by March 2019, the company's operational performance in FY19 is expected to remain subdued.

Capital structure and debt coverage indicators continues to be healthy
Owing to its healthy gross cash accruals in the past, the company's dependence on external debt financing to fund its capex and working capital requirement is low which results into healthy capital structure for the company. The company's overall gearing improved marginally from 0.42 times as on March 31, 2017 to 0.40 times as on March 31, 2018, on account of repayment of term loan as well as plough back of profit to the company's reserves. The company's debt coverage indicators continues to be healthy, albeit declined marginally, as indicated by PBILDT interest coverage ratio and total debt to GCA from 23.43 times and 1.96 times as on March 31, 2017 to 21.55 times and 1.97 times respectively.

Comfortable liquidity position
The company's liquidity position continues to be moderate with cash and bank balance of Rs.20.10 crore (including Rs.7 crore which is lien marked) as on December 26, 2018. Moreover, the company had average fund based utilization of 39.03% for the last twelve months ending November 30, 2018, which leaves more than Rs.30 crore of unutilized limits for the company to raise funds in case of any exigency.

Key Rating Weaknesses
Moderate scale of operations
With total income from operations at Rs.249.66 crore in FY18 and tangible net worth of Rs.193.06 crore, DAACPL is considered to be a moderate-sized entity. Moreover, as the company is in niche segment, new product launches will be crucial for the company to diversify its revenues as well as grow its scale of operations.

Product and customer concentration risk
DAACPL continues to derive majority of its revenues from top two products i,e Anthamber and Dihydromyrcenol which contributed 84.65% to the company's revenue in FY18 (P.Y:84.09%). High revenue concentration over few products exposes the company to product concentration risk as decline in demands in any of these two products may have significant impact on the company's sales. Moreover, the company is also exposed to customer concentration risk with top five customers contributing more than 80% to the company's revenues. However, most of its top five customers are amongst the global top ten players of flavours and fragrance industry and DAACPL has long standing relationships with most of them which partially mitigates the customer concentration risk.

Profit Margins exposed to volatility in raw material prices and currency fluctuation risk
DAACPL procures around 2/3rd of its raw material from DRT France for which prices remain fixed for a six-month period. Similarly, the company also enters into long term contract with its top clients for which prices remain fixed for six months. However, for the remaining, the price of raw material procured is market determined and the volatility in the prices may affect the profit margins to the extent of timing lag between the changes in raw material price and revision in price of its products.
As on March 31, 2018 the company had net un-hedged foreign currency exposure of Rs.23.71 crore which exposes the company's profit margins to volatility in forex rates.

Working capital intensive operations
Due to its nature of operations with high dependence on imports for raw materials, the company needs to maintain sufficient level of inventory. Moreover, as the company derives majority of its revenues from exports, the transition period involved in transfer of the company's products leads to high receivable cycle of around 3-4 months. However, as the company's major plant was not operational leading to virtually nil sales in the last month of financial year, its

receivable cycle improved as on March 31, 2018. Hence, the company average working capital cycle improved to 91 days as on March 31, 2018 from average working capital cycle of 125 days as on March 31, 2017.

Low project risk

The company's expansion capex at its unit 1 (Roha) facility was commenced during July-September period. DAACPL had total capital outlay of around Rs.95 crore which was funded through term debt of Rs.35 crore, and internal accruals of Rs.60 crore.

However, on February 19, 2018, DAACPL lost one of its major plant situated at unit no. 2, Roha. The reconstruction of the plant is nearing completion and expected to commence operations by March 2019. The total estimated outlay of around Rs.114.00 crore funded entirely through internal accruals and receipts from insurance claim. As on December 2018, the company had already incurred Rs.75.00 crore towards the reconstruction capex.

Analytical approach: Standalone Approach has been considered for analytical purposes.

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Factoring Linkages in Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in March 2008, DACPL is an equal JV between Anthea Aromatics Pvt. Ltd. (AAPL) and Les Dérivés Résiniqueset Terpéniques – (DRT), France. The company is engaged in the manufacturing of perfumery chemicals, which are extensively used in the detergents, soaps, and perfumes industry. DACPL currently has three products contributing to majority its revenue: ISO-E-Super, marketed under the Anthamber brand, Methyl Pentenone (MPO) and Dihydromyrcenol (DHM).

The company's manufacturing facility is located in Roha with combined manufacturing capacity of 21,600 MTPA. The company derives more than 80% of its revenues from exports, particularly from markets like Switzerland (Europe), USA, Brazil, France etc. The company sells its products directly to the Fragrance houses/blenders (which in turn are sold to FMCG companies). The marketing of products in global market is primarily handled by DRT France. Moreover, the company imports around 80% of its raw material requirement, majority of them (76.51% of total raw material purchased in FY18) are sourced from its promoter DRT France. On the other hand the manufacturing operations are handled by the Indian partner.

Brief Financials of DAACPL(Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	227.46	249.66
PBILDT	62.06	59.81
PAT	33.05	12.62
Overall gearing (times)	0.42	0.40
Interest coverage (times)	23.43	21.55

A: Audited;

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated August 28, 2012 on account of non-cooperation by DAACPL with CRISIL's efforts to undertake a review of the ratings outstanding.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Vikash Agarwal
Tel: 022-6754 3405
Email: Vikash.agarwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 07, 2022	22.24	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE A-; Stable
Fund-based - ST-EPC/PSC	-	-	-	62.00	CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	24.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	22.24	CARE A-; Stable	-	1)CARE A- (Under Credit watch with Developing Implications) (23-Mar-18) 2)CARE A-; Positive (29-Nov-17)	1)CARE A-; Stable (13-Dec-16)	1)CARE A- (01-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE A-; Stable	-	1)CARE A- (Under Credit watch with Developing Implications) (23-Mar-18) 2)CARE A-; Positive (29-Nov-17)	1)CARE A-; Stable (13-Dec-16)	1)CARE A- (01-Sep-15)
3.	Fund-based - ST-EPC/PSC	ST	62.00	CARE A2+	-	1)CARE A2+ (Under Credit watch with Developing Implications) (23-Mar-18) 2)CARE A2+ (29-Nov-17)	1)CARE A2; Stable (13-Dec-16)	1)CARE A2 (01-Sep-15)
4.	Non-fund-based - ST-BG/LC	ST	24.00	CARE A2+	-	1)CARE A2+ (Under Credit watch with Developing Implications) (23-Mar-18) 2)CARE A2+ (29-Nov-17)	1)CARE A2; Stable (13-Dec-16)	1)CARE A2 (01-Sep-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691