Asahi Songwon Colors Limited

November 10, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long Term Bank Facilities	11.25 (Reduced from 16.25)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	86.00 (Enhanced from 66.00)	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	Reaffirmed
Short Term Bank Facilities	34.00 (Reduced from 42.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**131.25 (Rupees One Hundred Thirty-One Crore and Twenty-Five Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Asahi Songwon Colors Limited (ASCL) continue to derive strength from its experienced management, established track record of ASCL in the pigment industry coupled with its long-standing relationship with some of the world's leading printing ink manufacturing companies as well as supply arrangements in place for one of its key raw materials (Phthalic Anhydride). The ratings also continue to factor its comfortable leverage and debt coverage indicators along with its strong liquidity. Further, the ratings also favourably factor the moderate diversification in its customer base through addition of new customers during past few years.

The long-term rating, however, continues to be tempered by its moderate scale of operations with product concentration, susceptibility of its profitability to volatility in raw material prices, foreign exchange fluctuation risk, and inherent project stabilization risk associated with its recently concluded capex for manufacturing of Azo pigments under a Joint Venture (JV).

Rating Sensitivities

Positive Factors (Factors that could lead to positive rating action / upgrade)

- Significant increase in scale of operations along-with revenue diversification
- Improvement in PBILDT margin above 20% on a sustained basis
- Improvement in ROCE above 25% on sustained basis

Negative Factors (Factors that could lead to negative rating action / downgrade)

- PBILDT margin below 12% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times on a sustained basis
- Deterioration in Total debt/GCA beyond 3 times on a sustained basis
- Any prolonged delay in ramp-up and stabilization of its new project for manufacturing of Azo pigments

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with an eminent board

ASCL and its promoters are engaged in the business of manufacturing pigments for nearly three decades. The company is one of the leading manufacturers of CPC Blue Crude in India and has also set-up facility for manufacturing Beta Blue as well as Alpha Blue pigments as a part of forward integration. ASCL's Chairperson, Mrs. Paru M. Jaykrishna, is a noted industrialist and a former President of Gujarat Chamber of Commerce & Industries (GCCI). Presently, the business operations of ASCL are being managed by Mr. Gokul Jaykrishna (CEO & Joint MD, ASCL) who is well qualified and has been engaged with ASCL since 1996. His son, Mr. Arjun Jaykrishna, also joined ASCL as an executive director from October 2019. Further, ASCL has several eminent personalities on its board.

Established track record of ASCL in the pigment industry

ASCL is one of the leading manufacturers of CPC Blue Crude in India. Being an export-oriented company, export sales constituted 59% of ASCL's total operating income (TOI) during FY21 (refers to the period April 1 to March 31). However, over the years, company has also increased its focus on the domestic market as reflected from gradual increase in

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

contribution of domestic sales from 20% of the TOI during FY16 to 41% of TOI during FY21. Also, as a part of forward integration, ASCL has set up facility to manufacture Alpha Blue and Beta Blue, which are value added products manufactured from CPC Blue Crude. The capacity utilization of CPC Blue Crude continued to remain healthy during FY21 and H1FY22. The capacity utilization of Beta Blue has largely remained stable whereas capacity utilization of Alpha Blue improved in FY21 and H1FY22 post teething issues encountered in its stabilization for a prolonged period.

Strong client profile along with gradual diversification
ASCL supplies pigments to some of the world's largest colorant companies like DIC Corporation (Japan), Sun Chemical Corporation (USA; part of DIC group), Clariant Chemicals India Limited, BASF SA (Germany) etc. and it has a strong and long-standing business relationship with its key clients. Income from these key clients remained in the range of 70%-80% till FY16. However, ASCL has gradually added some new customers in both domestic and export markets over past five years ended March 31, 2021 thus leading to some moderation in its client concentration. This has also been reflected from reduction in the share of income from its key clients to around 52% during FY21. While offset printing ink still continues to be the major end-use segment for pigments manufactured by ASCL, it has gradually started catering to the pigment requirements of packaging ink and plastics & coatings manufacturers, thereby lending relatively more stability to its business operations.

Stable scale of operations, comfortable leverage and debt coverage indicators
The TOI of ASCL remained stable at Rs.283.12 crore in FY21 vis-à-vis Rs.283.68 crore in FY20. On the back of lower cost of its crude based raw materials and its ability to supply products to its customers in a timely manner despite the Covid 19 pandemic, its PBILDT margin improved to 17.62% during FY21 vis-à-vis 12.23% during FY20 which, however, again moderated to 10.84% during H1FY22 upon sharp rise in cost of its raw materials, rise in freight costs and discontinuation of 2% export incentives.
The capital structure of the company continued to remain comfortable marked by an overall gearing of 0.19 times as on March 31, 2021 which marginally moderated from 0.11 times as on March 31, 2020 upon availing higher working capital borrowings to fund rise in its debtors by end-FY21. Its leverage on a consolidated basis is expected to further moderate by end FY22 upon availing term loan in its JV and higher working capital borrowings due to rise in its cost structure. Also, its debt coverage indicators remained healthy during FY21 with interest coverage of 25.70 times (FY20: 9.65 times) and total debt to GCA of 1.27 years (FY20: 0.93 years). Its interest coverage stood at 10.35 times during H1FY22.

Liquidity*: Strong*
Liquidity of ASCL is marked by strong cash accruals against negligible debt repayment obligations. With an overall gearing of 0.28 times as of September 30, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex/working capital requirement. The average utilization of its fund based working capital limits remained comfortable at 31% during the trailing 12 months ended September 2021 reflecting that its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Also, its current ratio stood healthy at 1.77 times as on March 31, 2021.

Key Rating Weaknesses
Product concentration resulting into moderate scale of operations
ASCL is a relatively medium sized player in the domestic pigment industry with its presence in only Phthalocyanine pigments with focus on CPC Blue Crude and its derivatives in comparison to few other large and diversified players which offer wide spectrum of organic pigments - Azo pigments, Pthalocyanine pigments and High performance pigments. Further, the scale of operations of ASCL is relatively small in comparison to the global pigment industry and moderate in comparison to domestic pigment industry which restricts its bargaining power against its much larger customers. Going forward, ability of the company to expand its existing product line and increase its scale of operations to a significant extent shall remain key rating sensitivity.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rate
Majority of the raw materials required by ASCL are derivatives of crude oil and hence, their prices are highly volatile and fluctuate in accordance with changes in international crude oil prices. The risk is mitigated to some extent through presence of supply arrangement for one of its key raw materials; however, ASCL's profitability is still susceptible to sudden changes in prices of raw material as there would be a lag between change in raw material price and reset of finished goods price. Being an export-oriented company, ASCL derives part of its revenue from exports thus exposing it to currency fluctuation risk also. However, ASCL has a natural hedge to the extent of import of raw materials.

Project stabilization risk associated with its recently concluded capex in JV to manufacture Azo pigments
In order to diversify its revenue profile and grow its scale of operations, ASCL has forayed into manufacturing a range of Azo pigments. Asahi Tennants Color Private Limited (ATCPL) has been set-up as a 51:49 JV between ASCL and Tennants Textile Colours Limited, London (part of TTC group). ATCPL has set up a plant for manufacturing a range of Azo pigments at

Dahej (Gujarat) with an initial installed capacity of 2,400 MTPA at a total cost of Rs.95 crore which started commercial operations towards end FY21. Initially, the JV has started manufacturing 7 grades of Azo pigments and going forward the product basket is proposed to be enhanced to 15 grades of yellow, red and orange pigments depending on market scenario. Further, TTC has committed minimum off-take of 20% of installed capacity from the JV. However, the operations of the JV are currently at a nascent stage as its products are under approval stage with its key export and domestic customers; consequently the JV reported a meagre TOI of around Rs.1 crore in H1FY22. The JV is likely to break-even by end Q1FY23 and reach capacity utilization of around 50% by end FY23.
Timely stabilization of the project along-with ramp-up of scale of operations and earning envisaged returns from the same would be critical to improve ASCL's return on capital employed. Also, competitive pressure exerted by the established players in the industry would be one of the key rating monitorables.

Analytical approach: Consolidated as there are strong operational and financial linkages of ASCL with its 51:49 JV company viz. ATCPL. Earlier, the approach was standalone along with factoring ASCL's entire investment requirement in ATCPL.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology: Consolidation
Rating Methodology-Manufacturing Companies
Financial ratios-Non- Financial Sector
Policy on Withdrawal of Ratings

About the Company
Incorporated in December 1990, ASCL is promoted by the Jaykrishna family based out of Ahmedabad (Gujarat). ASCL is mainly engaged in manufacturing and sales of Copper Phthalocyanine (CPC) pigments viz. CPC Blue Crude, Beta Blue and Alpha Blue. As on September 30, 2021, ASCL had an installed capacity of 13,200 Metric Tons Per Annum (MTPA) for manufacturing Blue Pigment (CPC Blue Crude, Beta Blue and Alpha Blue) at its Padra (Vadodara) plant (ISO 9001:2008 and ISO 14001:2004 certified). Beta Blue and Alpha Blue manufactured by ASCL are value-added products and part of its CPC Blue Crude is consumed captively for manufacturing of the same. ASCL has long-standing relationship (technical collaboration/equity participation/sourcing arrangement) with some of the world's largest colorant companies.

Brief Financials (Rs. crore) – Consolidated	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	283.68	283.12	191.98
PBILDT	34.70	49.90	20.81
PAT	22.83	31.95	9.10
Overall gearing (times)	0.11	0.19	0.28
Interest coverage (times)	9.65	25.70	10.35

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer **Annexure-2**

Covenants of rated instrument / facility: Please refer **Annexure-3**

Complexity level of various instruments rated for this company: Please refer **Annexure-4**

Bank Lender Details: Please refer **Annexure-5**

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept. 2023	11.25	CARE AA-; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	86.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	34.00	CARE A1+
Fund-based - ST-SLC-WC		-	-	-	0.00	Withdrawn

Annexure-2: Rating History (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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	11.25	CARE AA-; Stable	-	1)CARE AA-; Stable (18-Nov-20)	1)CARE AA-; Stable (25-Oct-19) 2)CARE AA-; Stable (04-Apr-19)	-
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	86.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (18-Nov-20)	1)CARE AA-; Stable / CARE A1+ (25-Oct-19) 2)CARE AA-; Stable / CARE A1+ (04-Apr-19)	-
3	Non-fund-based - ST-BG/LC	ST	34.00	CARE A1+	-	1)CARE A1+ (18-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-
4	Fund-based - ST-SLC-WC	ST	-	-	-	1)CARE A1+ (18-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-
5	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (12-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-

**Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based - ST-SLC-WC	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

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

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