

Loxim Industries Limited (Revised)

March 14, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	35.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)
Short Term Bank Facilities	17.50	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	52.50 (Rs. Fifty-Two Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Loxim Industries Limited (LIL) is on account of healthy growth in its total operating income (TOI) in FY21 (refers to the period April 1 to March 31) and 9MFY22 along with improvement in its profitability as well as capital structure with prepayment of term loans and strengthening of debt coverage indicators.

The ratings continue to derive strength from LIL's experienced promoters, favourable location of its manufacturing facilities, presence in diverse businesses, long-standing relationship with reputed overseas as well as domestic clientele and its adequate liquidity despite working capital intensive operations.

The ratings, however, continue to remain constrained on account of its moderate scale of operations, non-integrated dye manufacturing business, susceptibility of its profitability to volatility in raw material prices and foreign exchange rates and its presence in a competitive dyestuff industry wherein its fortunes are largely linked to demand from the cyclical end user industries.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Volume driven growth in TOI beyond Rs.400 crore along with sustained operating profitability (PBILDT margin) of more than 15%
- Earning ROCE of more than 20% on sustained basis with tangible net worth exceeding Rs.200 crore
- Maintenance of overall gearing below 0.40x on sustained basis
- Improvement in operating cycle to less than 100 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in TOI to below Rs.180 crore with PBILDT margin below 12% on a sustained basis
- Any large sized debt-funded capex resulting in deterioration in overall gearing above 0.75x
- Elongation in working capital cycle beyond 150 days

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in revenue along with higher profitability, though scale continues to remain moderate: LIL reported healthy volume driven growth of 27% y-o-y in its TOI during FY21 to Rs.195.70 crore. The improvement was on account of increased demand for both dyestuff and thermoplastic compounds. Its scale of operations however remained moderate.

PBILDT margin also improved significantly to 20.66% in FY21 from 9.40% in FY20 on the back of lower employee cost including management remuneration (which normalized to previous levels after increasing in FY19 & FY20) as well as lower raw material cost and discontinuation of subdued del-credere business segment.

With continued uptick demand in the current year as well, LIL reported TOI of Rs.181.06 crore registering a 23% y-o-y growth along with PBILDT margin of 17.71% during 9MFY22. PBILDT margin moderated to some extent vis-à-vis FY21 level mainly due to increase in raw material cost during the period.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improvement in capital structure along with strengthening of debt coverage indicators in FY21: LIL's capital structure continued to remain comfortable with overall gearing of 0.28x as on March 31, 2021. It improved from 0.43x as on March 31, 2020, on the back of accretion of profit to reserves and prepayment of entire term debt in FY21. Overall gearing further improved to 0.16x as on December 31, 2021, on the back of higher profit resulting in accretion to reserves and lower reliance on working capital borrowings. While LIL is planning to undertake some debt-funded capex in near to medium term, its capital structure is expected to continue to remain comfortable.

Debt coverage indicators also strengthened in FY21 on the back of higher profit and cash accruals with PBILDT interest coverage of 23.83x (5.18x in FY20) and total debt/ GCA of 1.04x (3.70x in FY20).

Experienced promoters: Mr. Jayprakash Patel, promoter of LIL, possesses over four decades of experience in chemical trading and manufacturing business. Mr. Canon Patel, Managing Director (MD), has over two decades of industry experience. He has been instrumental in expanding LIL's business operations by setting up manufacturing facility for thermoplastics at Sanand, Gujarat and the production capacity of which has doubled since FY16. Owing to LIL's consistent track record in export of dyes, it has been awarded the status of 'Star Export House' by the Government of India. Further, with a view to expand its marketing reach, LIL has established marketing subsidiaries in Germany, USA & Singapore, which cater to the demand from the European, American and Asian markets.

Strategically located and established manufacturing facilities: LIL's dyestuff manufacturing unit is in Padra (near Vadodara in Gujarat) in the Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR), which provides for easy sourcing of some of its raw materials along with relatively easier disposal of waste generated during the chemical production process through a common effluent discharge channel. During FY20, LIL had undertaken a capex of around Rs.15.00 crore for making this unit a zero effluent discharge (ZED) facility along with some increase in its production capacity. However, due to the pandemic, the inspection is pending and hence it is not operational yet. LIL's manufacturing plant for thermoplastics unit is located at Sanand (near Ahmedabad in Gujarat), which has emerged as an automotive and engineering cluster, the key end-user industries for its products.

Presence in diverse businesses and reputed clientele: LIL has presence in two diverse businesses, viz., dyes and thermoplastic compounds. Its dyes business, which contributed ~63% of its TOI in FY21, is export oriented with sales to leading chemical companies in Europe including CHT Switzerland AG (Switzerland) and Kemira OYJ (Finland). For thermoplastic compounds, LIL supplies to leading engineering and automobile component manufacturers located in and around the Sanand region. Owing to its consistent adherence to stringent quality standards as well as delivery schedules, LIL was able to secure repeat orders from its customers over the years. LIL also operated as a del-credere agent (DCA) for ONGC Petro Additions Limited (OPAL) for its polymer products in Gujarat. However, the same was discontinued in FY21.

Key Rating Weaknesses

Profitability susceptible to volatility in raw material prices and forex rates: The primary raw materials used for the manufacturing of dyes include H-Acid, vinyl sulphone, cyanuric chloride, para nitro toluene (PNT), diethylene glycol (DEG) and polyethylene glycol (PEG), while the primary raw material for polymers are derivatives of crude oil. The prices of these materials are inherently volatile and are driven largely by global as well as local demand and supply conditions with limited bargaining power of any single player. Any adverse movement in the prices of raw materials, which LIL is not able to pass on to its customers can have an impact on its profitability. However, LIL endeavours to mitigate the price volatility risk by fixing the final prices of the product at time of confirmation of orders and by entering in prompt booking of raw materials required.

Furthermore, LIL is a net exporter and enjoys natural hedge to the extent of around 40- 50% for its export receipts by way of its import payables, while the balance open position remains exposed to adverse movement in forex rates in the absence of any active hedging policy.

Presence in a competitive and fragmented industry with cyclical nature of end user industries albeit stable demand prospect: The dyes industry in India is fragmented and unorganized, comprising more than 800 small scale units and 15-20 medium and large sized players manufacturing more than 600 different types of dyes. This results in intense competition in the industry. Furthermore, LIL's dyes primarily find application in the paper and textile sectors and hence, the demand for LIL's products is susceptible to inherent cyclicity associated with these end user industries.

However, demand from these end user industries is expected to remain buoyant in near to medium term. Demand in the domestic textile sector has improved in FY22 with reopening of enterprises, educational institutions, and retail outlets, as well as an increase in the vaccinated population. Sanctions on Chinese textiles have also encouraged Indian textile exports. Government initiatives such as the Production Linked Incentive plan, establishment of mega textile parks, and extension of rebate of state & central taxes and levies scheme have also buoyed the sector.

For the automobile industry, recovery in economic activities, pent-up demand and discount schemes have led to an increase in demand. However, the same is partially impacted by elevated fuel prices and chip shortage during current year.

Liquidity: Adequate

LIL had adequate liquidity marked by adequacy of cash accruals for debt to be availed for capex (nil term debt as on December 31, 2021) and low utilization of its fund based working capital limits at 32% for the past 12 months ended December 2021.

LIL reported cash flow from operations of Rs.23.72 crore in FY21 on the back of higher profit generated during the period. Its operating cycle continued to remain elongated at 112 days in FY21, though improved from 129 days in FY20 on the back of lower collection period and higher creditor period. This elongated operating cycle underlines the working capital intensity inherent to the business, with investment required in both receivables (due to competitive nature of industry) as well as inventory (due to lead time required for imported raw materials). LIL provides credit period of around 2-3 months to its customers (majority of which are exports receivables) while it maintains inventory of around 3 months with majority of it in the form of raw material. However, with good operating cash flows, reliance on external debt is minimal.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#) □

About the Company

LIL was established in 1977 as Loxim Industries Private Limited and was subsequently reconstituted into a public limited company in 2003. LIL is engaged in manufacturing of dyes and thermoplastics compounds. Its dye manufacturing unit is located at Padra, Vadodara with an installed capacity of 16,420 metric ton per annum (MTPA) for various dyes and thermoplastic compounds manufacturing facility is located at Sanand with an installed capacity of 19,500 MTPA as on March 31, 2021.

LIL's dyes find application as a colouring agent mainly in the textile, paper & ink industry, whereas its thermoplastic compounds find application in automotive, electric & electronic equipment, packaging industry and consumer durables.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	153.88	195.70	181.06
PBILDT	14.46	40.44	32.06
PAT	6.63	26.18	20.19
Overall gearing (times)	0.43	0.28	0.16
Interest coverage (times)	5.18	23.83	20.55

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

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/Non-fund-based-LT/ST	-	-	-	25.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Working Capital Limits	-	-	-	2.50	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A2+
Fund-based - LT/ ST-Cash Credit	-	-	-	10.00	CARE A-; Stable / 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 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/Non-fund-based-LT/ST	LT/ST*	25.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-21)	1)CARE BBB+; Stable / CARE A2 (24-Feb-20) 2)CARE BBB+; Stable / CARE A2 (19-Feb-20)	1)CARE BBB+; Stable / CARE A2 (15-Mar-19)
2	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (30-Mar-21)	1)CARE BBB+; Stable (24-Feb-20) 2)CARE BBB+; Stable (19-Feb-20)	1)CARE BBB+; Stable (15-Mar-19)
3	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (19-Feb-20)	1)CARE BBB+; Stable (15-Mar-19)
4	Fund-based - ST-Working Capital Limits	ST	2.50	CARE A2+	-	1)CARE A2 (30-Mar-21)	1)CARE A2 (24-Feb-20) 2)CARE A2 (19-Feb-20)	1)CARE A2 (15-Mar-19)
5	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2+	-	1)CARE A2 (30-Mar-21)	1)CARE A2 (24-Feb-20) 2)CARE A2 (19-Feb-20)	1)CARE A2 (15-Mar-19)
6	Fund-based - LT/ ST-Cash Credit	LT/ST*	10.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-21)	-	-

* 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/ ST-Cash Credit	Simple
2	Fund-based - ST-Working Capital Limits	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Letter of credit	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 Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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