Asahi Songwon Colors Limited

March 14, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37.98 (Enhanced from 11.25)	CARE A; Stable	Revised from CARE A+; Stable
Long Term / Short Term Bank Facilities	131.00 (Enhanced from 86.00)	CARE A; Stable / CARE A1	Revised from CARE A+; Stable / CARE A1+
Short Term Bank Facilities	34.00	CARE A1	Revised from CARE A1+

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Asahi Songwon Colors Limited (ASCL) factors the weakening of its debt coverage indicators owing to moderation in its profitability during FY22 (refers to the period April 1 to March 31) and 9MFY23 (refers to the period April 1 to December 31) on the back of adverse industry scenario in ASCL's standalone pigment business as well as high losses incurred in its Azo pigment business under its 51% Joint Venture (JV) caused by delay in stabilization of the plant as against CARE Ratings' earlier expectations.

The ratings of ASCL continue to derive strength from established track record of ASCL and experience of its management in the pigment industry along 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 factor the moderate diversification in its customer base through addition of new customers during the past few years and its adequate liquidity.

The ratings however continue to be constrained by its moderate scale of operations, susceptibility of its profitability to volatility in raw material prices, foreign exchange fluctuation risk and its debt-funded capex plans. The ratings are further constrained by delay in realization of envisaged returns from its Azo pigments plant which has adversely impacted its Return on Capital Employed (ROCE).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in scale of operations along-with revenue diversification
- Improvement in PBILDT margin to around 15% along with improvement in its Total Debt/PBILDT to below 1.5x on a sustained basis
- Improvement in ROCE above 15% on sustained basis

Negative factors

- PBILDT margin and ROCE below 8% on a sustained basis
- Deterioration in overall gearing beyond 1.00 times on a sustained basis
- Deterioration in Total debt/GCA beyond 4.50 times on a sustained basis
- Delay in implementation & stabilization of its new project for backward integration of existing API intermediates and further delay in stabilization of azo pigments plant

Analytical approach: Consolidated

ASCL's credit profile has been analyzed on a consolidated basis owing to strong operational and financial linkages of ASCL with its 51:49 JV company viz. Asahi Tennants Color Private Limited (ATCPL). Further, from April 2022 onwards, Atlas Lifesciences Private Limited (ALPL) has become a 78% subsidiary of ASCL and a new wholly owned subsidiary named Atlas Lifesciences (India) Pvt. Ltd. (ALIPL) has been incorporated during FY23. List of entities getting consolidated in ASCL is provided in Annexure-6.

Outlook: Stable

Despite subdued demand scenario in the near term for pigments business, CARE Ratings believes that ASCL will continue to benefit from its established position in the pigment industry alongwith its experienced management. Going forward, the expected

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

higher cash flow generation from its concluded capex related to the Azo pigment business in its JV and ongoing capex related to the backward integration facility in ALIPL should improve its return indicators.

Key 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 around 56% of ASCL's TOI during FY22. However, over the years, company has also increased its focus on the domestic market as reflected from gradual increase in contribution of domestic sales from 20% of its TOI during FY16 to 44% of TOI during FY22. Furthermore, as a part of forward integration, ASCL has set up a facility to manufacture Alpha Blue and Beta Blue, which are value added products manufactured from CPC Blue Crude. The capacity utilization of its blue pigment business remained healthy during H1FY23.
Further, its 2,400 MTPA capacity for azo pigments is equally divided between yellow and red pigments. As indicated by company's management, the capacity utilization has improved from January 2023 with the capacity for yellow pigment being optimally utilized. ATCPL is expected to achieve PBILDT break even by March 2023. Further, entire sales of ATPCL are currently from domestic market only and there is not much off-take by its JV partner, which was earlier envisaged, primarily due to the slowdown in its textile business.

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, 2022 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 48% during FY22 and further 40% during H1FY23. 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 plastic & coating manufacturers, thereby expected to have relatively more stability to its business operations. Also, with the acquisition of controlling stake in ALPL, diversification of its business profile has improved with addition of pharma API business under ASCL. Going forward, its business profile is expected to further diversify post completion of its planned capex in ALIPL which is mainly towards backward integration to its pharma API business.

Liquidity: Adequate
Liquidity of ASCL has moderated over a period of time albeit the same remains adequate. Despite moderation in its overall gearing led by the debt-funded acquisition of ALPL and planned capex under its wholly owned subsidiary ALIPL, ASCL has sufficient gearing headroom, to raise additional debt for its capex/working capital requirement. Average utilization of fund based working capital limits stood at around 68% during past 12 months ended January 2023 reflecting that its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. Its expected improved cash accruals should adequately cover the higher term debt repayment obligations from FY24 onwards. Moreover, its current ratio stood healthy at 1.54 times as on March 31, 2022.

Key weaknesses

Significant moderation in debt coverage indicators: Post acquisition of 78% stake in ALPL on April 18, 2022, the consolidated debt level of ASCL increased marked by total debt of Rs.188.09 crore as on Dec. 31, 2022 vis-à-vis Rs.52.31 crore as on March 31, 2021. As against rise in its total debt, its operating profitability was impacted in FY22 & 9MFY23 leading to moderation in its debt coverage indicators. Its Total debt/ PBILDT, which stood at around 1x during FY21, moderated to 2.45x during FY22 and further to 8.07x during 9MFY23. CARE Ratings' expects ASCL's Total debt/ PBILDT to remain above 4x during FY24 as well upon expected slow recovery in its profitability during FY24 along-with availment of further debt for its capex plans.

Delay in stabilization of concluded capex in JV to manufacture Azo pigments impacting its return indicators: In order to diversify its revenue profile and grow its scale of operations, ASCL forayed into the manufacturing of a range of Azo pigments under Asahi Tennants Color Private Limited (ATCPL) which was set-up as a 51:49 JV between ASCL and Tennants Textile Colours Limited, London (part of TTC group). The plant has been set up with an initial installed capacity of 2,400 MTPA at a total cost of Rs.95 crore which started commercial operations towards end of FY21. Currently, the JV is manufacturing around 12 to 13 grades of yellow and red pigments and going forward the product basket is proposed to be enhanced to include orange pigments depending on market scenario. Further, TTC had committed minimum off-take of 20% of installed capacity from the JV. However, the operations of the JV, even after almost two years of operations, are still at a nascent stage as its products are under final approval stage with its key export and domestic customers; consequently, the JV reported a TOI of Rs.28.61 crore and incurred a net loss of Rs.11.28 crore in 9MFY23 whereby the losses remained higher than earlier expectation. Owing to delay in stabilization and ramp up of Azo pigments plant combined with the downturn in the industry, the ROCE of the company declined from 20.74% during FY21 to 11.48% during FY22 and is expected to be around 8% during next two years viz., FY23-FY24. Further, competitive pressure exerted by the established players in the industry would be one of the key rating monitorable.

Inherent risk associated with implementation and stabilization of debt-funded planned capex in ALIPL
ASCL under its wholly owned subsidiary i.e., ALIPL is implementing a greenfield project at a land parcel at Chhatral, Ahmedabad for backward integration of its existing API intermediates business alongwith introduction of newer high-value products. The total cost of the project is envisaged at around Rs.65 crore (higher than earlier estimates) which is planned to be funded through a term loan of Rs.55 crore (already sanctioned) and balance through internal accruals. The capex is expected to be completed by H1FY24 and the term loan repayment is expected to begin from Q1FY25. The company has plans to initially focus on semi regulated/ low regulated markets. No prior experience of ASCL in the regulated Pharma API business can also pose a challenge; albeit it is expected to benefit from continuation of the erstwhile promoter of ALPL as a Joint MD for around two years as well as the experienced employees of ALPL. Timely stabilization of the project along-with ramp-up of operations and earning envisaged returns from the same would be critical to improve ASCL's return on capital employed.

Relatively moderate scale of operations: ASCL is a relatively medium sized player in the domestic pigment industry with its presence predominantly in 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. In order to diversify its business operations and grow its scale of operations, the company has entered into API intermediates business and is also undertaking capex for its backward integration which along with stabilization and ramp-up of the Azo pigments plant is expected to gradually improve its scale of operations.
Going forward, ability of the company to expand its product line and increase its scale of operations to a significant extent while earning healthy profitability shall remain key rating sensitivity.

Moderation in profitability which is susceptible 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. During FY22, PBILDT margin of ASCL (Consolidated) moderated to 8.79% upon sustained rise in cost of its raw materials, increase in coal and freight costs, along with discontinuation of 2% export incentives and its PBILDT margin deteriorated further to 4.54% during 9MFY23 on account of low realizations on the back of sluggish demand, excessive supply in the domestic market upon imposition of anti-dumping duty on pigments by China and inventory losses associate with high cost inventory coupled with weak performance of its JV (ATCPL). 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. Further, as per the company management, ASCL has in place a well-structured risk management system for monitoring and mitigation of such forex risk.

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

About the company and industry

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Dyes And Pigments

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 December 31, 2022, 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. Under its JV/subsidiary, ASCL is also engaged in manufacturing of Azo pigments and API intermediates/bulk drugs.

Brief Financials- Consolidated (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	283.01	415.17	385.02
PBILDT	49.78	36.48	17.49
PAT	31.95	14.65	(6.79)
Overall gearing (times)	0.19	0.32	NA
Interest coverage (times)	25.64	7.72	1.73

A: Audited; Prov.: Provisional; Classified as per CARE Ratings' Standards,
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2027	37.98	CARE A; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	131.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	34.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	37.98	CARE A; Stable	1)CARE A+; Stable (26-Apr-22)	1)CARE AA-; Stable (10-Nov-21)	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*	131.00	CARE A; Stable / CARE A1	1)CARE A+; Stable / CARE A1+ (26-Apr-22)	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)	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+ (26-Apr-22)	1)CARE A1+ (10-Nov-21)	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)Withdrawn (10-Nov-21)	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 the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Lender details

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

Annexure 6: List of entities getting consolidated in ASCL as on December 31, 2022

Sr. No.	Name of the company	% holding as on Dec.31, 2022
1.	Asahi Tennants Color Private Limited	51
2.	Atlas Life Sciences Private Limited	78
3.	Atlas Life Sciences (India) Private Limited	100

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

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About us:
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