Asahi Songwon Colors Limited

January 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	17.49 (Reduced from 23.60)	CARE A; Positive	Upgraded from CARE A-; Stable
Long-term / Short-term bank facilities	131.00	CARE A; Positive / CARE A1	Upgraded from CARE A-; Stable / CARE A2+
Short-term bank facilities	19.00	CARE A1	Upgraded from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to the bank facilities of Asahi Songwon Colors Limited (ASCL) takes into account sustained improvement in operating performance over past three quarters ended Q2FY25 (FY refers to April 01 to March 31) backed by improved product realisations and demand, owing to improved industry dynamics for pigment business on the back of inventory restocking coupled with the consolidation in the pigment industry. Capacity utilisation in the blue pigment stood above ~85% (FY24: ~60%) during H1FY25 while in the azo pigment, the same witnessed a gradual improvement to ~66% (FY24: 54%). Consequently, scale of operations witnessed a significant growth of ~39% yoy in H1FY25 while profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin improved to 9.9% during the period from 2.3% in H1FY24. Besides, API business too has witnessed an improved profitability on the back of steady ramp up in the scale of operations and benefits of backward integration, which further contributed to the improved PBILDT margin during H1FY25. Debt protection metrics witnessed an improvement with interest coverage ratio at ~3.3x in H1FY25 (FY24: ~1.6x) while total debt (TD)/PBILDT (annualised) witnessed a sharp improvement and stood at ~3.6x in H1FY25. Financial risk profile is expected to continue to remain healthy aided by sustained healthy PBILDT margins coupled with gradual reduction of debt levels, given no major capex envisaged as well as no major investment requirement in its subsidiaries going forward.

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 moderate diversification in its customer base and adequate liquidity.

The ratings however continue to be constrained by relatively moderate scale of operations albeit gradually improving, susceptibility of its profitability to volatility in raw material prices and foreign exchange fluctuation risk. The ratings are further constrained by stabilisation risk associated with debt funded capex for backward integration of existing API business.

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 ~14% and improvement in its TD/PBILDT to 1.75x on a sustained basis.
- Improvement in return on capital employed (ROCE) above 15% on a sustained basis.

Negative factors

- PBILDT margin and ROCE below 10% on a sustained basis
- Total debt/PBILDT beyond 4 times on a sustained basis

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken an consolidated approach of ASCL and its subsidiaries due to strong operational and financial linkages between them. List of entities getting consolidated in ASCL is provided in **Annexure-6.**

Outlook: Positive

Revision in outlook from 'Stable' to 'Positive' reflects CARE Ratings expectation of higher cash flow generation from its Azo pigment business under its joint venture (JV) and from recently concluded capex related to the backward integration facility in Atlas Life Sciences (India) Private Limited (ALIPL) which is expected to improve its return indicators and debt coverage indicators. Further

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

ASCL will continue to benefit from its established position in the pigment industry along-with its experienced management. Outlook may be revised to 'Stable' in case ASCL is unable to sustain its improved performance.

Detailed description of key rating drivers:

Key strengths

Experienced management with an eminent board

ASCL and its promoters are engaged in 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 and Alpha Blue pigments as a part of forward integration and value-added products. ASCL's chairperson, Mrs. Paru M Jaykrishna, is a noted industrialist and a former president of Gujarat Chamber of Commerce & Industries (GCCI). Presently, ASCL's business operations are managed by Mr. Gokul Jaykrishna (CEO and 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 in pigment industry; Improvement in Capacity Utilisation

At a standalone level, ASCL operates blue pigment business and is one of the leading manufacturers of CPC Blue Crude in India. Including Beta Blue and Alpha Blue pigments, the company has a manufacturing capacity of 13800 metric tonne per annum (MTPA). Capacity utilisation of its blue pigments, which remained weak in FY23 and FY24 witnessed a strong improvement to 85%-90% led by restocking by the customers. At a standalone level, exports constituted ~56% of ASCL's standalone total operating income (TOI) in FY24.

The company, through its 51% subsidiary, Asahi Tennants Colour Private Limited (ATCPL), also operates azo pigments with capacity of 2,400 MTPA, equally divided between yellow and red pigments. Capacity utilisation of Azo pigment has increased to 66% after three years of commencement of operations. ATPCL's entire sales 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 such as DIC Corporation (Japan), Sun Chemical Corporation (USA; part of DIC group), and Clariant Chemicals India Limited, BASF SA (Germany) among others and enjoys a strong and long-standing business relationship with its key clients. Revenue from these key clients account for ~50% in H1FY25. Over the years, the company has gradually added some new customers in domestic and export markets which has enabled to reduce the contribution of such key clients from 70%-80% in the past. While offset printing ink continues to be the major end-use segment for pigments manufactured by the company, the company has gradually started catering pigment requirements of packaging ink and plastic and coating manufacturers.

The company has also diversified its business profile with addition of pharma API business through acquisition of 78% shareholding in Atlas Lifesciences Private Limited (ALSPL) in April 2022. In FY24, ASCL acquired balance 22% shareholding in the company for a consideration of ₹9.65 crore, thereby consolidating its holding. In FY24, pigments segment contributed 77% to the revenue while lifesciences business contributed 23%. The company has also set up another facility in Chattral, Gujarat under the subsidiary, Atlas Life Sciences (India) Private Limited (ALIPL) as a part of backward integration in its lifesciences segment. The facility commenced commercial operations in December 2023. Gradual ramp up of its unit is expected to further strengthen the business risk profile of the company.

Sustained improvement in operating profitability post 9MFY24 leading to improvement in debt coverage indicators in H1FY25

Post 9MFY24, ASCL's operating profitability has witnessed sustained improvement with company reporting PBILDT margin of 7-10% against 3% in 9MFY24 and 2% in FY23. In Q4FY24, the company earned PBILDT of ~₹9 crore (9MFY24: ~₹10 crore) and ₹13-₹14 crore in the first two quarters of the current fiscal year. Such improvement has been supported by improved product realisations and demand, owing to improved industry dynamics for pigment business on the back of inventory restocking and consolidation in the pigment industry. Furthermore, profitability in the API business too witnessed an improvement considering ramp up in segment scale of operations and benefits of backward integration, which supported the consolidated profitability.

In H1FY25, consolidated TOI witnessed a strong growth of 39% yoy to ₹276 crore while PBILDT stood at ₹27 crore (H1FY24: TOI: ₹198 crore; PBILDT: ₹5 crore). Operating performance is expected to remain healthy during H2FY25 with gradual recovery in the demand coupled with favourable realisation. This coupled with stable raw material prices is expected to ensure sustained healthy profitability margin going forward. CARE Ratings expects PBILDT for company to be ₹55-₹60 crore for FY25 (PBILTD margin of ~10% which shall be significantly better than FY23 and FY24).

Supported by improvement in operating profitability, the debt coverage indicators which had moderated significantly in FY23 and 9MFY24 have improved for full year FY24 (supported by improved profitability in Q4FY24) and further in H1FY25. PBILDT interest coverage improved to 3.29x in H1FY25 (FY23: 0.64x, FY24:1.60x) while total debt/PBILDT (annualised) improved to 3.63x in H1FY25 (FY23: 19.89x, FY24: 9.83x). Debt levels have further reduced to ₹179 crore as on December16, 2024, against ~₹197 crore as on September 30, 2024, and the company expects debt to be ~₹175 crore as of FY25-end and ~₹150 crore levels by end-FY26 which is expected to improve its currently weak return indicators.

Liquidity: Adequate

In 9MFY24, ASCL sold its non-core land for ₹47 crore at a gain of ~₹26 crore which aided its liquidity considering continued weak operational performance. The land sale proceeds were used to meet its working capital requirements and towards funding of its capex in ALIPL. Subsequently, from Q4FY24 onwards, the company's operating profitability improved on a quarterly basis, thus resulting in improved cash accruals. Cash accruals are likely to remain healthy in FY25 against debt repayment obligations of ~₹26 crore. The company has no major capex commitments in the near term.

With overall gearing of 0.83x as on March 31, 2024, ASCL has sufficient gearing headroom, to raise additional debt for its capex/working capital requirement. Working capital cycle stood high at ~100 days in FY24 (FY23:86 days) mainly owing to higher sales of ~₹126 crore in Q4FY24 (9MFY24: ~₹300 crore). Average utilisation of fund based working capital limits stood at ~62% in the last 12 months ended November 2024 which provides cushion for meeting its incremental working capital requirement.

Key weaknesses

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. ASCL's scale of operations 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, the company's ability to increase its scale of operations to a significant extent while earning healthy profitability shall remain key rating sensitivity.

Profitability susceptible to raw material price volatility and foreign exchange rate

Majority of 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. In FY23 and FY24 (esp. 9MFY24), ASCL's PBILDT margin moderated considering inventory losses associated with high-cost inventory, low realisations on the back of sluggish demand, excessive supply in the domestic market upon imposition of anti-dumping duty on pigments by China and weak performance of its subsidiaries.

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.

Inherent risk associated with stabilisation of recently concluded debt-funded capex in ALIPL

ASCL under its wholly owned subsidiary, ALIPL has implemented a greenfield project at a land parcel at Chhatral, Gandhinagar for backward integration of its existing API intermediates business and introduction of newer high-value products. The project was completed in December 2023 at a total cost of ₹77 crore, funded through a term loan of ₹55 crore, balance through internal accruals. The company has plans to initially focus on semi regulated/ low regulated markets. While there has been some ramp of operations in H1FY25, timely stabilisation of the project and sustained profitable ramp-up of operations shall remain critical to improve ASCL's return on capital employed.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals and petrochemicals	Dyes And Pigments

Incorporated in December 1990, ASCL is promoted by the Jaykrishna family based out of Ahmedabad (Gujarat). The company is mainly engaged in manufacturing and sales of Copper Phthalocyanine (CPC) pigments including CPC Blue Crude, Beta Blue and Alpha Blue. As on September 30, 2024, 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). 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 Azo pigments (comprising of red & yellow pigments) with manufacturing capacity of 2,400 MTPA at Dahej (Bharuch) and API intermediates/bulk drugs with API capacity of 50 tonne per month across Odhav (Ahmedabad) and Chattral (Gandhinagar).

Brief Financials- Consolidated (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	508.30	428.02	275.88
PBILDT	9.03	20.05	27.23
PAT	-18.47	15.64	7.68
Overall gearing (times)	0.77	0.83	0.81
Interest coverage (times)	0.64	1.60	3.29

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	April 2027	17.49	CARE A; Positive
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	131.00	CARE A; Positive / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	19.00	CARE A1

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	17.49	CARE A; Positive	1)CARE A-; Stable (05-Apr-24)	-	1)CARE A; Stable (14-Mar-23) 2)CARE A+; Stable (26-Apr-22)	1)CARE AA-; Stable (10-Nov-21)

2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	131.00	CARE A; Positive / CARE A1	1)CARE A-; Stable / CARE A2+ (05-Apr-24)	-	1)CARE A; Stable / CARE A1 (14-Mar-23) 2)CARE A+; Stable / CARE A1+ (26-Apr-22)	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)
3	Non-fund-based - ST-BG/LC	ST	19.00	CARE A1	1)CARE A2+ (05-Apr-24)	-	1)CARE A1 (14-Mar-23) 2)CARE A1+ (26-Apr-22)	1)CARE A1+ (10-Nov-21)
4	Fund-based - ST-SLC-WC	ST	-	-	-	-	-	1)Withdrawn (10-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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 consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Asahi Tennants Color Private Limited	Full	Subsidiary
2	Atlas Life Sciences Private Limited	Full	Subsidiary
3	Atlas Life Sciences (India) Private Limited	Full	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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