Spectrum Dyes and Chemicals Private Limited

August 24, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	167.34 (Enhanced from 82.79)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	195.00 (Enhanced from 172.19)	**CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	12.00 (Enhanced from 11.00)	**CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Revised from CARE A2 (A Two) #**
Short Term Bank Facilities	12.31 (Enhanced from 0.60)	**CARE A2 (A Two)**	**Reaffirmed**
Total Bank Facilities	**386.65 (Rs. Three Hundred Eighty-Six Crore and Sixty-Five Lakhs Only)**		

Details of instruments/ facilities in Annexure-1
#reclassification of bank facilities

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) continue to derive strength from the wide experience of promoters and established position of Spectrum in the disperse dye industry, continuous up-gradation and modernization of its manufacturing facilities with semi-integrated operations, wide product range and distributor network, location benefit in terms of presence in the chemical belt and proximity to the main consumption centre. The ratings also derive strength from its healthy profitability, moderate leverage and adequate debt coverage indicators and liquidity. The rating also factors in moderation in total operating income (TOI) during FY21 (FY refers to the period from April 1 to March 31) with lower demand from textile industry amidst Covid 19 disruption as expected but same is expected to recover going forward.

The ratings, however, continue to be constrained on account of its presence in a single segment of the dye industry, industry risk related to adherence to the strict pollution control norms, presence in the cyclical chemical industry and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuation risk. The ratings are further constrained due to Spectrum's propensity to support the operations of weaker group company under corporate guarantee (CG) obligation along with loans and advances extended to its group companies as well as to third parties. The rating also factors in project risk associated with on-going debt funded expansion project on adjacent land which is mitigated to certain extent considering its favorable capital structure, healthy cash accruals providing adequate coverage for its repayment obligations and past experience of promoters in execution of such project.

Rating Sensitivities
Positive Factors

- Increase in TOI over Rs.1000 crore with adjusted overall gearing below 0.75x on sustained basis
- Improvement in gross operating cycle below 110 days on sustained basis
- Significant reduction in its exposure to weaker group companies/loans & advances extended

Negative Factors

- Decline in TOI below Rs. 500 crore
- Any delay in project implementation leading to significant cost over-run or any other debt funded capex resulting in increase in total debt leading to adj. overall gearing above 1.50x
- Elongation in its operating cycle beyond 150 days in sustained basis
- Any increase in investment/or loans and advances to group companies impacting Spectrum's liquidity position

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

Detailed description of the key rating drivers
Key Rating Strengths
Experienced management
Spectrum, the flagship company of Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. The promoters have over 30 years of experience in textile processing & chemical industry through their association with various group companies. The Pratibha group has its presence in various segments of the textile value chain through nine different entities (including Spectrum). The promoters have also supported the overall operations of the company through gradual equity infusion over the period.

Established track record in the disperse dye industry in India with wide product range and strong agent/distribution network
Spectrum has established manufacturing operations and over the period it has invested to increase its capacity with up-gradation and modernization of its manufacturing facility leading to improvement in its operational efficiency and compliance with pollution control norms. Spectrum is the second largest manufacturer of disperse dyes in India and has a long-standing relationship with its established clientele and agent/distributor network. It has been gradually increasing its market share in the disperse dyes segment. Spectrum generates nearly 45% of its gross sales under B2B (Business to Business) segment while remaining 55% sales are through distribution network of agents/distributors spread across various dye-consuming centres in the country.
Spectrum manufactures more than 175 different shades of disperse dyes and some intermediates of varied colours which are used in dyeing and printing of polyester fabrics reflecting wide product range. Moreover, the company is two-star export house and has various accreditations and certifications like ISO 9001:2015, ISO 14001:2015, BS OHSAS 18001:2007, Bluesign, Authorized Economic Operator-T2 certificate.

Benefit of plant being located in the chemical belt along with proximity to the main consumption center
Spectrum is located in Gujarat wherein several prominent chemical clusters are situated thereby providing easy access to raw materials. Furthermore, Spectrum has major focus on the domestic market with over 40% of its sales coming from local Surat market which is also a hub for polyester textile wherein disperse dyes are used for dyeing and printing. In view of strategic location of the plant, Spectrum enjoys proximity to the main consumption centre and benefits from lower logistic expenses.

Moderation in TOI, however, continued healthy profitability
TOI of Spectrum decline by 20.85% from Rs.777.17 crore during FY20 to Rs.615.14 crore during FY21 which was in-line with the expectation. The decline in TOI was on the back of muted demand during H1FY21 from textile industry amidst Covid 19 disruptions and its manufacturing plant remained shut down from March 22, 2020 to April 19, 2020 and was scaled up gradually post re-opening and sales recovered during H2FY21 period. Total sales volume declined by 14.80% during FY21 on y-o-y basis. However, with strong demand prospects from the textile sector in the domestic as well as export market, sales volume is expected to grow by 14-16% during FY22 on y-o-y basis.
Despite moderation in the avg. sales realization during FY21, profitability of Spectrum continued to remain healthy marked by profit before interest, lease, depreciation and tax (PBILDT) margin of 15.47% (FY20:15.63%) which was supported by the moderation in the employee cost with decline in the director remuneration. PBILDT margin are expected to remain at 15-16% going forward. With decline at PBILDT level and moderate depreciation and interest and finance cost, profit after tax (PAT) too declined during FY21. Gross cash accruals (GCA) though declined, remained healthy at Rs.63.33 crore during FY21 as compared to Rs.81.66 crore during FY20.

Moderate leverage and adequate debt-coverage indicators
Despite the regular capex, Spectrum has moderate capital structure which improved from 0.87x as on March 31, 2020 to 0.70x as on March 31, 2021 on the back of steady accretion of profit to reserve. Going forward, with debt funded expansion project gearing is expected to deteriorate but is expected to remain at moderate level of near unity.
Spectrum has provided its CG to the bank facilities of its group company i.e. Anubha Industries Private Limited (AIPL). Considering the guaranteed debt, Spectrum had adjusted total debt of Rs.290.30 crore as on March 31, 2021 as compared Rs. 314.52 crore as on March 31, 2020 and its adj. overall gearing remained moderate and improved from 1.20x as on March 31, 2020 to 0.95x as on March 31, 2021. Total outside liabilities (TOL) / (tangible net-worth) TNW too remained moderate and improved from 1.41x as on March 31, 2020 to 1.20x as on March 31, 2021.
Overall debt coverage indicators of Spectrum remained adequate marked by total debt to GCA (TDGCA) of 3.39x and PBILDT interest coverage of 5.61x during FY21 as compared with 2.81x and 6.99x during FY20.

Key Rating Weaknesses

Implementation and Saleability risk associated with the ongoing capex

Spectrum is undertaking expansion project to increase its capacity to 33,600 MTPA which is expected to operationalize form January 2022. The total cost of project is estimated at Rs.184.13 crore to be funded with project debt to equity ratio of 1.87x. Term loan has already been sanctioned and is partially disbursed. Spectrum has incurred around 56% of project cost as on May 31, 2021.

The project implementation risk is low considering the project progress along with successful track record of the management for timely project implementation in past and this being an expansion project in a similar line of business. However, post completion, considering the size of capex there is saleability risk associated with the project amidst disruption due to covid 19 or demand from end user industry. Timely completion of the project along with early stabilization and achieving envisaged benefit thereon remains key rating monitorable in light of any disruption in the operation due to Covid 19 pandemic or any demand slowdown from the Textile sector. However, risk is partly mitigated considering its favorable capital structure and healthy cash accruals providing adequate coverage for its repayment obligations.

Spectrum's propensity to support the operation of a group company under the corporate guarantee obligation along with significant loans and advances extended

Spectrum has extended CG to part of the bank facilities availed by AIPL aggregating Rs.75.45 crore as on March 31, 2021 (Rs.85.40 crore as on March 31, 2020). AIPL is engaged in manufacturing of denim fabric and had set-up a green-field project during FY15. Due to cyclical downturn in the denim fabric industry coupled with Covid-19 pandemic related disruption, operational as well as financial performance of the AIPL was deteriorated and it had reported losses in FY21. However, there was no incremental financial support given by Spectrum to AIPL during FY21 and Spectrum's exposure in terms of equity and unsecured loan stood at Rs.25.79 crore as on March 31, 2021. With availment of term loan and fund infusion from the promoters, debt repayment in AIPL is timely. Hence, considering the weak operational and financial profile of AIPL, it increases Spectrum's propensity to support its operations under the corporate guarantee obligation, if required.

Apart from investment in its group companies, Spectrum has extended significant amount of loans and advances to its group companies as well as to various third parties which has reduced on y-o-y basis. Total investment and loans and advances forms 27% of its TNW as on March 31, 2021. As indicated by the management these loans and advances are expected to recover going forward, however, any delay in recovering the same or any significant increase going forward, affecting the Spectrum's liquidity shall remain crucial from the credit perspective.

Presence in the single segment of dyes industry

Spectrum's revenue is concentrated to one segment of the dyes industry – disperse dyes. Disperse dyes find application in the dyeing and printing of polyester fabrics, which makes its demand susceptible to inherent cyclicality associated with its end-user textile industry. Furthermore, Spectrum has limited geographical diversification as majority of its revenue is earned from domestic market (around 77% in FY21) with major concentration in the local Surat market. It also faces competition from a large organized player in the sector besides the threat from Chinese imports in long run. However, presently Spectrum derives benefits from favorable demand scenario reflected in growth in operations in domestic as well as export markets with high utilization of its capacity.

Industry risk related to requirement of continuous adherence to regulatory compliance to pollution control norms

Since companies engaged in the manufacturing of dyes/ dyes intermediates generate hazardous waste, they have to adhere to stringent pollution control norms. Strict adherence to these pollution control norms is foremost for all companies operating in the chemical industry. Spectrum has regularly invested in the plant and machineries to make it environmentally compliant over the years. Spectrum is active towards balancing and minimizing the possible adverse impact of dyes on health and environment by treatment of waste water through effluent treatment and incineration process including operation and maintenance of hazardous waste land fill site (same is being outsourced to third party). Many small chemical units not complying with pollution control norms are getting closed down. In this backdrop, continuous compliance with pollution control norms by Spectrum as has been done in the past would be crucial for smooth running of its operations without any closure of production facility.

Susceptibility of its margins to volatile raw material prices and foreign exchange fluctuation

The basic raw materials for manufacturing of disperse dyes are different types of chemicals which are mainly derivatives of crude oil. Hence, the prices of its raw materials vary in line with those of international crude oil prices which make Spectrum's profitability susceptible to volatility in crude oil prices. Spectrum sources its raw material both from domestic as well as international markets with China, Denmark, Germany and Spain being its major source of imports. Also, it exports its products to China, Korea, Taiwan, U.S.A., Egypt and Brazil among other countries. Hence, Spectrum's profitability is susceptible to adverse movement in forex rate in light of absence of active hedging policy. However, with significant exports

(Rs.161.54 crore in FY21) spectrum has natural hedge available against its imports (Rs.117.24 crore in FY21) thereby mitigating exchange rate fluctuation risk to a larger extent.

Liquidity: Adequate

Spectrum has adequate liquidity marked by moderate debt repayment against its healthy cash accruals and cushion available from un-utilized working capital limits. Spectrum is expected to earn GCA of Rs.80-90 crore during FY22 as against its debt obligation of ~Rs.31 crore. Avg. fund based working capital limit utilization remained moderate at 75.09% during past 12 months ended July 31, 2021. Further, Spectrum has enhanced its working capital limits by Rs.46.50 crore from the month of April-2021. During FY21 (May 2020), Spectrum had availed guaranteed emergency credit line limit (GECL) limit of Rs.14.50 crore which was prepaid in the month of May 2021 (prepayment of Rs.9.67 crore).

Current ratio and quick ratio remained moderate at 1.13x and 0.61x respectively as on March 31, 2021 as compared to 1.26x and 0.84x respectively as on March 31, 2020. Spectrum had cash and bank balance of Rs. 8.29 crore as on March 31, 2021. Cash flow from operation improved from Rs.23.70 crore during FY20 to Rs.97.43 crore during FY21 due to increase in the creditors level.

The operating cycle elongated from 100 days in FY20 to 131 days during FY21 on the back of higher avg. inventory period with prospect of strong demand revival in the domestic and export market. Gross operating cycle (inventory + receivables) days remained long at 183 days during FY21 as against 134 days during FY20.

Analytical approach: Standalone, while factoring in support extended to the group companies including the CG extended. Spectrum has extended unconditional and irrevocable CG for part of the bank facilities (Rs.75.45 crore as on March 31, 2021) availed by AIPL.

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: notching by factoring linkages in Ratings
Rating Methodology: Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the company

Spectrum (CIN: U24110MH1989PTC176088), the flagship company of the Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. The company is engaged in manufacturing of disperse dyes which are used in the dyeing and printing of polyester fibre. Located at Palsana (near Surat) in Gujarat, Spectrum is the second-largest manufacturer of disperse dyes in India. Spectrum manufactures more than 175 different shades of disperse dyes and some dye intermediates with main focus on the basic colours viz. blue, black and red. Spectrum had an installed capacity of 23,400 metric tonnes per annum (MTPA) as on March 31, 2021.

The Pratibha group is a four-decade old group having business interests in the field of textile and related business segments. The group has multiple manufacturing units across diverse businesses such as textile processing houses, manufacturing of disperse dyes, manufacturing of nylon yarn, weaving of linen fabrics and embroidery work, etc.

Brief Financials (Rs. Crore)	**FY20 (A)**	**FY21 (Prov.)**
Total operating income	777.17	615.14
PBILDT	121.48	95.19
PAT	63.89	42.81
Overall gearing (times)	0.87	0.70
Adjusted Overall gearing (times*)	1.20	0.95
Interest coverage (times)	6.99	5.61

*A: Audited; Prov.: Provisional; *including CG extended as debt*

As per provisional results for 4MFY22, Spectrum reported net sales of Rs.185.41 crore as compared to Rs.86.67 crore during 4MFY21 (Prov.) period.

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 instruments/facility: Detailed explanation of covenants of the rated instrument//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
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	12.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	March 2029	167.34	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	195.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	12.31	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.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	12.00	CARE BBB+; Stable / CARE A2@	-	1)CARE A2 (25-Nov-20)	1)CARE A2 (03-Oct-19)	1)CARE A3+ (03-Jan-19)
2.	Term Loan-Long Term	LT*	167.34	CARE BBB+; Stable	-	1)CARE BBB+; Stable (25-Nov-20)	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (03-Jan-19)
3.	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	195.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (25-Nov-20)	1)CARE BBB+; Stable / CARE A2 (03-Oct-19)	1)CARE BBB+; Stable / CARE A3+ (03-Jan-19)
4.	Non-fund-based - ST-Credit Exposure Limit	ST*	12.31	CARE A2	-	1)CARE A2 (25-Nov-20)	1)CARE A2 (03-Oct-19)	1)CARE A3+ (03-Jan-19)

**Long Term/Short Term; @realassification of bank facilities*

Annexure 3: Detailed explanation of covenants of the rated instrument//facilities

Bank Facilities	Detailed explanation
A. Financial covenants	
	Spectrum to maintain followings:

Covenant	Threshold
Total outside liability to Adj. T. Net-worth	<=2.25x
Debt / EBITDA	<=3x
DSCR	>=1.75x
PBILDT Interest Coverage Ratio	>= 2.60x

Bank Facilities	Detailed explanation
B. Non-financial covenants	
	1. Any of Mr. Pramod Chaudhary, Mr. Yogesh Gupta and Mr. Akshat Pramod Chaudhary stepping down from the Board of the Spectrum.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
2.	Non-fund-based - ST-Credit Exposure Limit	Simple
3.	Term Loan-Long Term	Simple

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.*

Contact Us

Media Contact
Name: Mradul Mishra
Contact no.: - +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Akhil Goyal
Group Head Contact no : - +91-79-40265621
Group Head Email ID : akhil.goyal@careratings.com

Business Development Contact
Name: Deepak Prajapati
Contact no. - +91-79-40265602
Email ID: deepak.prajapati@careratings.com

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