Spectrum Dyes And Chemicals Private Limited (Revised)

June 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	143.66 (Reduced from 167.34)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	320.00 (Enhanced from 207.00)	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Short Term Bank Facilities	-	-	Withdrawn*
Total Bank Facilities	**463.66 (₹ Four Hundred Sixty-Three Crore and Sixty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1; *reclassification of the bank facilities

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) takes into account steady growth in scale of operations and cash accruals over five years ended FY22 (FY refers to the period from April 1 to March 31) and completion of its capacity expansion project in envisaged time and cost parameter during Q4FY22 and achievement of healthy capacity utilization levels. The ratings revision also factors in significant reduction in the loans and advances during FY22 and 2MFY23.

The ratings continue to derive strength from the wide experience of promoters and established position of Spectrum in the disperse dye industry with 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 moderate debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain 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 its moderate capital structure and corporate guarantee obligation of Spectrum's towards its group company as well as its exposure towards its associates.

Rating sensitivities

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

- Increase in total operating income (TOI) over Rs.1500 crore while maintaining healthy profitability on sustained basis
- Improvement in the adjusted overall gearing to below 1x on sustained basis
- Diversification of revenue/product profile
- Improvement in operating cycle below 100 days on sustained basis

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

- Decline in TOI below Rs.700 crore and/or reduction in the profit before interest, lease, depreciation and tax (PBILDT) margin below 12% on sustained basis
- Any debt funded capex leading to adjusted overall gearing above 1.50x
- Elongation in its operating cycle beyond 150 days on sustained basis
- Any increase in investment/or loans and advances to group companies affecting Spectrum's liquidity

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

Detailed description of the key rating drivers

Key Rating Strengths

Steady growth in scale of operation with heathy profitability over five years ended FY22 and moderate debt coverage indicators
From FY17 to FY22, there has been significant growth in TOI over last five years with CAGR of around 10% TOI of Spectrum grew by around 45% during FY22 (provisional) on y-oy basis on the back of 33% growth in the sales volume and improvement in the average sales realization. Capacity utilization of Spectrum was impacted during FY21 (76%) due to disruption amidst Covid 19 pandemic however, the same increased to around 94% during FY22. Further, with commencement of enhanced capacity and steady demand from textile segment, TOI is expected to grow by 15-20% in near term.
Spectrum continued to have healthy profitability marked by PBILDT margin of 13.04% during FY22 as compared with 14.96% during FY21. Moderation in the PBILDT margin during FY22 was due to increase in power and fuel cost and overheads with commencement of the operation of the new plant. However, cash accruals in absolute terms had shown healthy growth marked by gross cash accruals (GCA) of Rs.81.72 crore during FY22 as compared with Rs.63.33 crore during FY21. PBILDT margin are expected to remain in the range of 14- 16% going forward.
Overall debt coverage indicators of Spectrum remained moderate marked by total debt to GCA (TDGCA) of 4.37x and PBILDT interest coverage of 6.11x during FY22 as compared with 3.39x and 5.39x respectively during FY21.

Completion of the expansion project with healthy capacity utilization levels and significant reduction in the loans and advances extended
Spectrum had undertaken the capacity expansion project to increase its capacity from 23,400 MTPA to 35,400 MTPA. The project was operationalized (trial run) from the January 01, 2022. Spectrum had incurred total cost (excluding working capital margin) of Rs.168.86 crore which was funded from term loan of Rs.120.70 crore and balance from the internal accruals which remains in line with expectation. The operation of the new plant has been stabilized and it has exhibited healthy capacity utilization in the range of 75-80% in the March - May 2022 period which is expected to support its growth in near term.
Spectrum has extended significant amount of loans and advances to its group companies as well as to various associates which has reduced on y-o-y basis as on March 31, 2022. Total investment and loans and advances which formed 27% of its TNW as on March 31, 2021 declined to 18% as on March 31, 2022. Spectrum had recovered loans and advances of Rs.21.68 crore during 2MFY23 leading to further reduction in the loans and advances extended to the associates.

Experienced management
Spectrum, the flagship company of Surat-based Pratibha Group, was promoted by late 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 steadily increase its installed 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 47% of its gross sales under B2B (Business to Business) segment while remaining 53% 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.

Key Rating Weaknesses

Presence in the single segment of dyes industry
Spectrum's revenue is concentrated to only one segment of the dyes industry i.e. 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 82% in FY22) with major concentration in the local Surat market. It also faces competition from a large, organized player. Although threat of imports from China continues due to its very large capacities, imports of disperse

dyes from China to India had declined and remained low in last five years ended FY22 while exports from India has shown double digit volume growth during same period.

Moderate capital structure

Spectrum has moderate capital structure with overall gearing of 0.98x as on March 31, 2022 as compared with 0.70x as on March 31, 2021. Total outside liabilities (TOL) / tangible net-worth (TNW) stood at 1.51x as on March 31, 2022 as compared with 1.19x as on March 31, 2021. Moderation in the capital structure was on account of drawdown of the term loan and increased working capital borrowings for the capacity expansion project being undertaken during FY22. Tangible net-worth remained strong at Rs.363.83 crore as on March 31, 2022. Spectrum has provided its Corporate Guarantee 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.415.87 crore as on March 31, 2022 as compared Rs.290.36 crore as on March 31, 2021 and its adj. overall gearing remained moderate at 1.39x as on March 31, 2022.

Corporate Guarantee obligation of Spectrum's towards its group company as well as its exposure towards its associates

Spectrum has extended Corporate Guarantee to part of the bank facilities availed by its group company i.e. AIPL aggregating Rs.58.91 crore as on March 31, 2022 (Rs.75.45 crore as on March 31, 2021). 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, its operations had significantly improved during FY22. There was no incremental financial support given by Spectrum to AIPL during FY21 and FY22 and Spectrum's exposure in terms of equity and unsecured loan stood at Rs.24.50 crore as in March 31, 2022 (Rs.25.79 crore as on March 31, 2021). With availment of additional bank facility and equity infusion from the promoters during FY22, debt repayment in AIPL is timely. However, 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 amount of loans and advances to its group companies which has shown declining trend in last two years. Going forward any significant increase in same affecting the Spectrum's liquidity shall remain crucial from the credit perspective.

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. With completion of its new capex, it has also upgraded its primary treatment plant (PTP), secondary treatment plant (STP) and sludge dewatering/handling system with capacity of 3 million litter per day (MLD). 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). In this backdrop, continuous compliance with pollution control norms is crucial for players in dyes industry including Spectrum.

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, Turkey, 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.185.94 crore in FY22) spectrum has natural hedge available against its imports (Rs.195.14 crore in FY22) 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 healthy GCA during FY23 as against its debt obligation of around Rs.27 crore. Cash flow from operation declined from Rs.93.19 crore during FY21 to Rs.11.84 crore during FY22 due to increase in the finished goods inventory with commencement of additional capacity along with increase in the debtors due to increase in the scale of operation. Avg. fund based working capital limit utilization remained moderate at 83.69% during past 12 month ended March 31, 2022. Furthermore, Spectrum has enhanced its working capital limits by Rs.113 crore from the month of March 2022 which will also cushion to its liquidity. It had cash and bank balance of Rs.1.45 crore as on March 31, 2022. Current ratio and quick ratio remained moderate and improved marginally from at 1.11x and 0.58x respectively as on March 31, 2021 to 1.17x and 0.52x respectively as on March 31, 2022.

In export market Spectrum provides credit period for around 45-50 days while in domestic market it provides credit period of 55-60 days. However, it also enjoys greater credit period from majority of its suppliers for around 2 to 3 months. The operating cycle though remains elongated, it improved from 131 days during FY21 to 101 days during FY22.

Analytical Approach: Standalone, while factoring in support extended to the group companies including the Corporate Guarantee extended. Spectrum has extended unconditional and irrevocable Corporate Guarantee for part of the bank facilities (Rs.58.91 crore as on March 31, 2022) availed by AIPL.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

Spectrum (CIN: U24110MH1989PTC176088), the flagship company of the Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. Located at Palsana (near Surat) in Gujarat, Spectrum is the second-largest manufacturer of disperse dyes in India which are used in the dyeing and printing of polyester fibre. It manufactures around 175 different shades of disperse dyes and dye intermediates with main focus on the basic colours viz. blue, black and red.
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 (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (P)
Total operating income	774.83	611.57	885.79
PBILDT	128.35	91.50	115.50
PAT	76.33	42.76	55.33
Overall gearing (times)	0.86	0.70	0.98
Adjusted Overall gearing (times)	1.78	1.29	1.39

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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

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 along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	25.00	CARE A-; Stable / CARE A2+
Term Loan-Long Term	-	-	-	March 2029	143.66	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	295.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the 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	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	25.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (24-Aug-21)	1)CARE A2 (25-Nov-20)	1)CARE A2 (03-Oct-19)
2	Term Loan-Long Term	LT	143.66	CARE A-; Stable	-	1)CARE BBB+; Stable (24-Aug-21)	1)CARE BBB+; Stable (25-Nov-20)	1)CARE BBB+; Stable (03-Oct-19)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	295.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (24-Aug-21)	1)CARE BBB+; Stable / CARE A2 (25-Nov-20)	1)CARE BBB+; Stable / CARE A2 (03-Oct-19)
4	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A2 (24-Aug-21)	1)CARE A2 (25-Nov-20)	1)CARE A2 (03-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	**Spectrum to maintain following:**

Covenant	Threshold
Total outside liability to adjusted tangible net-worth	<2.50x
EBITDA	>13%
DSCR	>1.30x
Total debt to PBIDTA	<=3.50x

Name of the Instrument	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
	2. Invocation of the Corporate Guarantee for the bank exposure on AIPL

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Working Capital Limits	Simple
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3	Non-fund-based - ST-Credit Exposure Limit	Simple
4	Term Loan-Long Term	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 instruments: 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@careedge.in for any 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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