Asahi Songwon Colors Limited

October 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-Term Bank Facilities	21.25 (reduced from 22.50)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Short-Term Bank Facilities	42.00	**CARE A1+ (A One Plus)**	Reaffirmed
Long- Term/Short-Term Bank Facilities	66.00	**CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)**	Reaffirmed
Total Facilities	**129.25 (Rupees One Hundred Twenty Nine Crore and Twenty Five Lakh Only)**		
Commercial Paper *(Carved out of Sanctioned fund based working capital limits)*	20.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Instruments	**20.00 (Rupees Twenty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and commercial paper of Asahi Songwon Colors Limited (ASCL) continue to derive strength from its experienced management, long and established track record of ASCL in the pigment industry coupled with its long-standing relationship with world's largest printing ink manufacturing companies and supply arrangement in place for one of its key raw materials (Phthalic Anhydride). The ratings also continue to factor its comfortable leverage & debt coverage indicators and strong liquidity. Further, the ratings also favorably factor the moderate diversification in its customer base through addition of new customers during past four years ended FY19 (refers to period from April 1 to March 31).

The long term rating, however, continues to be tempered by its susceptibility to volatility in raw material prices, foreign exchange fluctuation risk, product concentration risk resulting in moderate scale of operations, continued under-utilization of the Alpha blue pigment capacity, moderating trend in its operating profitability (PBILDT) margins and inherent project risk associated with its plans to undertake manufacturing of Azo pigments under a Joint Venture (JV).

Rating Sensitivities

Positive sensitivities

- Significant increase in scale of operations along-with revenue diversification
- Improvement in PBILDT margin above 18% on sustained basis
- Improvement in ROCE above 25% on sustained basis

Negative sensitivities

- PBILDT margin below 12% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times on sustained basis
- Deterioration in Total debt/GCA beyond 3 times on sustained basis
- Significant cost or time over run in implementation of its Azo pigment project under its JV adversely impacting its debt coverage indicators

Detailed description of the key rating drivers

Key Rating 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 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.

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

His son, Mr. Arjun Jaykrishna has also joined ASCL as an additional director and executive director from October 14, 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 64% of ASCL's total operating income (TOI) during FY19. 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 the TOI during FY16 to 36% of TOI during FY19. Also, as a part of forward integration, ASCL has set up facility to manufacture Alpha Blue and Beta Blue, which are value added products manufactured from CPC Blue Crude. The capacity utilization of CPC Blue Crude and Beta Blue plants continued to remain healthy during FY19 and H1FY20. However, the capacity utilization of Alpha Blue was negligible during the same period.

Strong client profile along with gradual diversification
ASCL supplies 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 added some new customers in both domestic and export markets over past four years ended March 31, 2019 thus leading to moderation in the client concentration risk. This has also been reflected from reduction in the income from key clients to around 57% during FY19 and 50% during H1FY20.

Stable scale of operations, comfortable leverage and debt coverage indicators; albeit with moderation in operating profitability margin
The total operating income (TOI) of the company remained stable at Rs.293.65 crore during FY19 vis-à-vis Rs.292.94 crore during FY18. Its PBILDT margin remained moderate at 13.74% during FY19 as against 13.29% during FY18 which has however declined from 18.76% during FY17. Its PBILDT margin has further declined to 10.64% during H1FY20 due to demand slowdown in a competitive environment. The capital structure of the company, however, improved marked by an overall gearing of 0.33 times as on March 31, 2019 from 0.53 times as on March 31, 2018 on account of reduction in working capital borrowings. The debt coverage indicators of the company, although moderated, continued to remain healthy during FY19 and H1FY20 with PBILDT Interest coverage of ~8 times.

Liquidity: Strong
Liquidity of ASCL is marked by strong cash accruals against negligible debt repayment obligations and presence of liquid investments to the tune of Rs.15.41 crore as on Sept. 30, 2019. With an overall gearing of 0.33 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex; however it has envisaged to undertake its Azo pigment capex under JV entirely through equity funding. Its average utilization of fund based working capital limits remained low at 39% over the trailing 12 months ended September 2019 reflecting that its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Also, its current ratio stood healthy at 1.81 times as on March 31, 2019.

Key Rating Weaknesses
Product concentration risk resulting into moderate scale of operations
ASCL is a relatively medium sized player in the domestic pigment industry with its presence in only Phthalocyanine pigments with focus on CPC Blue Crude and its derivatives in comparison to few other large and diversified players which offers wide spectrum of the 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. Going forward, ability of the company to expand its existing product line and increase its scale of operations shall remain key rating sensitivity.

Susceptibility of ASCL's profitability 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 change 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-material; however ASCL's profitability is still susceptible to sudden changes in prices of raw material as witnessed during FY18 and FY19.
Being an export oriented company, ASCL derives majority of its revenue from exports thus exposing it to currency fluctuation risk. However, ASCL has a natural hedge to the extent of import of raw materials.

Inherent project risk associated with the recently taken up project in JV to manufacture Azo pigments
In order to diversify its revenue profile and grow its scale of operations, ASCL has planned to foray into manufacturing a range of Azo pigments. On October 22, 2019, ASCL has announced that it has signed a joint venture (JV) cum shareholders agreement with Tennants Textile Colours Ltd., London (part of TTC group) for setting up a manufacturing facility for a range of Azo pigments at Dahej (Gujarat) with an initial installed capacity of 2,400 MTPA at an estimated cost of ~Rs.80 crore. This project cost under JV; Asahi Tennants Color Pvt Ltd (ATCPL) is proposed to be funded by ASCL & TTC in the ratio of their equity stake in JV which is 51:49 respectively. Initially it is planned that JV shall manufacture 6 grades of Azo pigments and going forward the product basket is proposed to be enhanced to 18 grades of yellow, red & orange Azo pigments depending on market scenario. Further, TTC has committed minimum off-take of 300 MTPA of pigments from the JV. TTC has planned to decommission its Azo pigment plant at Belfast, Ireland and ship the same to Dahej (Gujarat) partially towards its equity contribution in the JV. ASCL has also planned to contribute its land at Dahej for part of its equity contribution in JV. The project is expected to achieve commercial operations by February 2021. Timely completion & stabilization of the project along-with earning envisaged returns from the same would be critical to improve its return on capital employed which stood very low at 10.71% during FY19. Also, prevailing market scenario and competitive pressure exerted by the established players in the industry at the time of commencement of operations of the Azo pigment facility would be one of the key rating monitorables.

Analytical approach: Standalone along with factoring investment requirement in its JV with TTC i.e. Asahi Tennants Color Pvt Ltd.

Applicable Criteria
Criteria on assigning Outlook to Credit Rating
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology Manufacturing Companies
Financial Ratios-Non Financial Sectors

About the Company
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 September 30, 2019, 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 manufactured by ASCL is a value added product 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	292.94	293.65
PBILDT	38.92	40.34
PAT	23.08	18.29
Overall gearing (times)	0.53	0.33
Interest coverage (times)	11.02	7.80

A: Audited
Based on published unaudited results for H1FY20, ASCL reported TOI of Rs.153.78 crore (H1FY19: Rs.158.27 crore) and profit after tax (PAT) of Rs.13.24 crore (H1FY19: Rs.10.07 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 - LT-Term Loan	-	-	September 2023	21.25	CARE AA-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	66.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	34.00	CARE A1+
Fund-based - ST-SLC-WC	-	-	-	8.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	20.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	21.25	CARE AA-; Stable	1)CARE AA-; Stable (04-Apr-19)	-	1)CARE AA-; Stable (20-Mar-18)	1)CARE AA-; Stable (11-Jan-17)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	66.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (04-Apr-19)	-	1)CARE AA-; Stable / CARE A1+ (20-Mar-18)	1)CARE AA-; Stable / CARE A1+ (11-Jan-17)
3.	Non-fund-based - ST-BG/LC	ST	34.00	CARE A1+	1)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (20-Mar-18)	1)CARE A1+ (11-Jan-17)
4.	Fund-based - ST-SLC-WC	ST	8.00	CARE A1+	1)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (20-Mar-18)	1)CARE A1+ (11-Jan-17)
5.	Commercial Paper-Commercial Paper (Carved out)	ST	20.00	CARE A1+	1)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (20-Mar-18)	1)CARE A1+ (11-Jan-17)

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.*

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