Asahi Songwon Colors Limited

November 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	16.25 (Reduced from 21.25)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	66.00	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	Reaffirmed
Short Term Bank Facilities	42.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Bank Facilities	**124.25 (Rupees One Hundred Twenty Four Crore and Twenty Five Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities 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 favourably factor the moderate diversification in its customer base through addition of new customers during past few years. CARE also notes that ASCL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its debt obligations which underlines its strong liquidity profile.

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 Alpha blue pigment capacity, moderating trend in its operating profitability (PBILDT) margins till FY20 (refers to period from April 1 to March 31); albeit the same improved in H1FY21 and inherent project risk associated with its on-going capex for manufacturing of Azo pigments under a Joint Venture (JV).

<u>Rating Sensitivities</u>

Positive Factors

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

Negative Factors

- PBILDT margin below 12% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times on a sustained basis
- Deterioration in Total debt/GCA beyond 3 times on sustained basis
- Any issues w.r.to stabilization of its new project for manufacturing of Azo pigments along with significant cost or time over-run

Detailed description of the key rating drivers

<u>Key Rating Strengths</u>

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. His son, Mr. Arjun Jaykrishna also joined ASCL as an executive director from October 2019. Further, ASCL has several eminent personalities on its board.

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

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 66% of ASCL's total operating income (TOI) during FY20. 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 34% of TOI during FY20. 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 continued to remain healthy during FY20 and H1FY21. The capacity utilization of Beta Blue was comparatively low in FY20 in H1FY21 as the capacity was expanded from 2,760 MTPA to 3,000 MTPA in FY20. However, the capacity utilization of Alpha Blue was negligible during FY20 and Q1FY21 on account of teething issues encountered in its stabilisation for a prolonged period. However, gradually the issues with Alpha Blue plant are being resolved and its capacity utilization has improved from 3% in Q1FY21 to around 19% in Q2FY21 and is currently operating at 50% capacity as indicated by company's management.

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 added some new customers in both domestic and export markets over past five years ended March 31, 2020 thus leading to some moderation in the client concentration risk. This has also been reflected from reduction in the share of income from its key clients to around 58% during FY20. 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 plastics & coatings manufacturers, thereby lending relatively more stability to its business operations.

Stable scale of operations, comfortable leverage and debt coverage indicators; albeit with continuous trend in moderation of its operating profitability margin till FY20 which has, however, witnessed improvement in H1FY21
The total operating income (TOI) of ASCL moderated by ~3% on the back of moderation by ~4% in sales realization of its products and remained largely stable at Rs.283.68 crore during FY20 (FY19: Rs.293.65 crore). In line with moderation in realizations, PBILDT margin continued to witness downward trend and moderated by 150 bps on y-o-y basis and stood at 12.23% during FY20 (as compared with the higher range of 18-19% during FY16 and FY17). However, its PBILDT margin has again increased significantly to 19.31% during H1FY21 mainly due to ability of the company to supply products to its customers on timely basis despite the Covid 19 pandemic and benefit from lower cost of its crude based raw materials. ASCL is also incurring capex of around Rs.18 crore towards increasing share of captive renewable energy consumption which is expected to further support its profitability.

The capital structure of the company continued to remain comfortable, with its overall gearing improving from 0.33 times as on March 31, 2019 to 0.12 times as on March 31, 2020 and 0.07 times as on September 30, 2020 on account of decline in working capital borrowings. During FY20, the debt coverage indicators also improved and remained healthy with interest coverage of 9.65 times (FY19: 7.80 times) and total debt to GCA of 0.93 years (FY19: 2.35 years). Further, total debt to PBILDT also improved from 1.60 times during FY19 to 0.67 times during FY20. The debt coverage indicators continued to remain healthy during H1FY21 with improvement in profitability.

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.13.94 crore as on September 30, 2020. With an overall gearing of 0.12 times as of March 31, 2020, 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 17% over the trailing 12 months ended October 2020 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 ~2 times as on March 31, 2020. On the back of its strong cash accruals, the company has announced buyback of fully paid up equity shares for an aggregate amount not exceeding Rs.8.09 crore at its board meeting held on November 06, 2020. Also, ASCL has not availed any moratorium on its debt obligations during the period from March to August 2020, the option for which was available to it as a Covid-relief measure under RBI's package which underlines its strong liquidity.

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 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. Going forward, ability of the company to expand its existing product line and increase its scale of operations to a significant extent 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 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-material; 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. Being an export-oriented company, ASCL derives majority 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.

Inherent project risk associated with its on-going capex taken up in JV to manufacture Azo pigments
In order to diversify its revenue profile and grow its scale of operations, ASCL planned to foray into manufacturing a range of Azo pigments. In October 2019, ASCL had 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. However, due to certain change in scope of project, the company plans to incur an additional sum of Rs.15 crore towards the project largely towards additional infrastructure requirements (mainly industrial water and drainage) to cater to the future expansion of Azo pigments at the same site. 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. As on September 30, 2020 ASCL had already invested Rs.42.21 crore in the JV towards its contribution for the project cost. 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 had planned to decommission its Azo pigment plant at Belfast, Ireland and ship the same to Dahej (Gujarat) partially towards part of its equity contribution in the JV. ASCL has also contributed its land at Dahej for part of its equity contribution in JV. The project is expected to achieve commercial operations by December 2020 which is ahead of its earlier envisaged SCOD of February 2021 despite disruptions caused by the Covid-19 pandemic. Around Rs.82 crore is already incurred in this JV project. Timely completion & stabilization of the project along-with earning envisaged returns from the same would be critical to improve ASCL's return on capital employed which stood very low at 8.23% during FY20. 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 Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology Manufacturing Companies]
[Financial Ratios-Non Financial Sectors]

About the Company
Incorporated in December 1990, Asahi Songwon Colors Limited (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, 2020, 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)	FY19 (A)	FY20 (A)
Total operating income	293.65	283.68
PBILDT	40.34	34.70
PAT	18.30	22.82
Overall gearing (times)	0.33	0.12
Interest coverage (times)	7.80	9.65

A: Audited;

Based on published results for H1FY21, ASCL reported TOI of Rs.120.59 crore (H1FY20: Rs.153.78 crore) with a PAT of Rs.17.27 crore (H1FY20: Rs.13.24 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	16.25	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+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	16.25	CARE AA-; Stable	-	1)CARE AA-; Stable (25-Oct-19) 2)CARE AA-; Stable (04-Apr-19)	-	1)CARE AA-; Stable (20-Mar-18)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	66.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (25-Oct-19) 2)CARE AA-; Stable / CARE A1+ (04-Apr-19)	-	1)CARE AA-; Stable / CARE A1+ (20-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	34.00	CARE A1+	-	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (20-Mar-18)
4.	Fund-based - ST-SLC-WC	ST	8.00	CARE A1+	-	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)	-	1)CARE A1+ (20-Mar-18)
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)	-	1)CARE A1+ (20-Mar-18)

Annexure 3: 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.	Fund-based - ST-SLC-WC	Simple
4.	Non-fund-based - ST-BG/LC	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
Mr. Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Hardik Shah
Contact No.: +91-79-4026 5620
Email ID – hardik.shah@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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