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CARE ASSIGNS 'BBB-' & 'PR3' RATING TO BANK LOAN FACILITIES OF SPECTRUM DYES & CHEMICALS PVT. LTD.

CARE assigned a 'CARE BBB-' (Triple B Minus) rating to the long-term bank loans/facilities and a 'PR3' (PR Three) rating to the short-term bank loans/facilities of Spectrum Dyes & Chemicals Pvt. Ltd. (Spectrum) for an aggregate amount of Rs.91.35 crore, including term loan of Rs.40.35 crore (including sanctioned term but yet to be disbursed loan of Rs.25.00 crore), sanctioned fund-based working capital limit of Rs.50 crore and non-fund based limit of Rs.one crore.

Facilities with 'CARE BBB' rating are considered to offer moderate safety for timely servicing of debt obligations and carry moderate credit risk. This rating is applicable to facilities having tenure of more than one year. Facilities with 'PR 3' rating would have moderate capacity for timely payment of short-term debt obligations and carry higher credit risk as compared to instruments rated higher. This rating is applicable to facilities having a tenure upto one year. CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

The ratings take into account Spectrum's experienced management and established track record in the disperse dye industry, depth of product-line backed by proper agent/distribution network and long-standing clientele. The ratings are, however, constrained by its moderate financial profile as reflected by its low profit margins and moderate overall gearing in a high/rising interest rate scenario and project risk associated with a significantly large project size compared to its capital employed. The ratings are also constrained by high level of competition and vulnerability of its margins to fluctuations in its raw material prices because of movement in crude oil prices and foreign exchange rate.

Spectrum, the flagship company of Surat-based Pratibha Group, was promoted by Shri M. K. Chaudhary in 1989 for manufacturing disperse powder, which are used in the dyeing and printing of polyester fibre. It is the second-largest manufacturer of disperse dyes in India. The sales of Spectrum have been focused in domestic markets only with more than 70% of the turnover coming from the local Surat market which is a textile hub for the use of disperse dyes.

The basic raw material for Spectrum is different types of chemicals, the prices of which are dependent on the prices of inputs that are largely petro-based. Spectrum is exposed to risk of foreign exchange fluctuation as almost 39% of its raw material (by cost) was imported in FY08 and there was hardly any natural hedging in the form of exports. Thus, any depreciation of the INR would adversely impact its operating margins. Almost 40% of its sales in FY08 were directly to the clients whereas the remaining 60% were through its network of around 20 agents/distributors that are spread across various dye-consuming centres in the country.

Spectrum's total income grew from Rs.92.91 crore in FY07 to Rs.103.36 crore in FY08 mainly due to growth in domestic demand for disperse dyes, both in terms of quantity as well as average sales realisation. PAT margin of Spectrum, though improved, remained low at 1.88% for FY08. Low margins are attributed to stiff competition from the market leader and Chinese imports.

Working-capital intensive nature of the industry resulted in high bank borrowings, which led to moderately-high overall gearing of 1.35 times as on March 31, 2008. Interest coverage, though improved, remained moderate at 1.78 times for FY08.

As on March 31, 2008, current ratio and quick ratio were comfortable at 1.25 times and 0.78 times, respectively. Working capital turnover ratio remained moderate at 2.54 times for FY08.

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