Spectrum Dyes and Chemicals Private Limited

December 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	65.23 (Reduced from Rs.78.13 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Long/ Short-term Bank Facilities	120.00	**CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**	**Revised from CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable / A Three Plus)**
Short-term Bank Facilities	9.60	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**194.83 (Rupees one ninety four crore and eighty three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) takes into account the consistent growth in total operating income during past four years ended FY17 (refer period from April 01 to March 31) along with improving profitability backed by optimum capacity utilisation. The revision also factors in increased operational efficiency due to continuous capex for up-gradation and modernization of manufacturing facilities which also partially mitigate the risk related to compliance of pollution control norms.

The ratings of Spectrum continue to take into account the wide experience of the promoters in the field of textile and chemicals businesses, dominant position of Spectrum in disperse dyes segment having established manufacturing operations, in-depth product line, established agent/ distributor network as well as location benefit in terms of presence in the chemical belt and proximity to the main consumption centre leads to long-standing relationship with its customers. Further, the ratings also continue to take into account its moderate leverage and debt coverage indicators and reduction in exposure of corporate guarantees extended to the various group entities.

The ratings, however, continue to be constrained on account of the risk associated with volatility in raw-material prices, exposure to foreign exchange rate fluctuations, working capital-intensive nature of operations, Spectrum's presence in a single segment of the dyes business and risk related to continuous compliance of the pollution control norms in cyclical chemical industry.

Ability of Spectrum to sustain the improvement in profitability margins while managing working capital requirements and manage volatility in raw material prices & exchange rate fluctuations are the key rating sensitivities. Any significant capital expenditure as well as investment outlay adversely affecting the capital structure and debt protection indicators of Spectrum shall also be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Consistent growth in total operating income and improving profitability: The total operating income, which registered a compounded annual growth rate (CAGR) of 14% during past four years ended FY17, grew by nearly 17% during FY17 mainly on account of increased production and sales volume in light of significant improvement in export sales during FY17. Further, as per provisional results, the growth trajectory continues during H1FY18, where the total operating income grew further by 21% over H1FY17. The PBILDT margin continuously improved during consecutively second year ended FY17 and stood healthy at 13.54% for FY17 as against 9.87% during FY15. Further, PAT margin also improved in-line with the improvement in PBILDT margin and stood moderate for the year.

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

Adherence to regulatory compliance of pollution control through continuously invested in modernization and up-gradation of manufacturing facilities: Spectrum has continuous incurred the capex over past few years ended FY17 towards infrastructure up-gradation and replacement of more than 20 years old disperse dye plants to make it environment complainant. Capex is planned considering the safety and pollution control norms to be adhered in chemical industry which would also lead to savings in fuel cost and improve the yield of production without any kind of production loss over the implementation period.

Experienced & resourceful promoters: Spectrum, the flagship company of Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. The promoters have around more than 25 years of experience in textile processing & chemical along with that supported the overall operations of the company through gradual equity infusion over past few years. The Pratibha group has its presence in various segments of the textile value chain through nine different entities (including Spectrum).

Dominant player in disperse dye segment having established manufacturing operations: Spectrum manufactures around 175 different shades of disperse dyes and some intermediates of varied colours which are used in dyeing and printing of polyester fabrics. The manufacturing capacity is optimally utilised with capacity utilisation at nearly 96% over past three years ended FY17. Spectrum, being the second largest manufacturer of disperse dyes in India, has a long-standing relationship with its established clientele and agent/distributor network. Spectrum has market share of nearly 25%-30% in disperse dyes segment.

Benefit of plant being located in the chemical belt along with proximity to the main consumption center: Spectrum is located in Surat which is a chemical belt of Gujarat. Spectrum has major focus on the domestic market with around 70% of its sales coming from the local Surat market. In view of strategic location of the plant, Spectrum enjoys proximity to the main consumption centre and benefits from lower logistic expenses.

Moderate leverage and debt coverage indicators: Despite continuous investment in capex which was partly funded through term debts, the leverage of Spectrum improved marginally and stood moderate at 1.17 times as on March 31, 2017. The other debt coverage indicators like interest coverage and total debt to GCA has also remained moderate for FY17.

Reduction in the support extended to group entities improving financial flexibility: Spectrum had continuously reduced the amount of corporate guarantee extended to group companies on account of stabilization & improvement of standalone performance of group companies which reduced the Spectrum's propensity to support the operation of these entities. The amount of corporate guarantee reduced significantly from Rs.370 crore as on Mach 31, 2015 to Rs.151 crore as on September 30, 2017. This has led to significant improvement in the adjusted overall gearing of Spectrum as on September 30, 2017.

Rating Weaknesses

Working capital intensive operation: Operations of Spectrum continued to remain working capital intensive in nature with more than 60% of its total operating capital employed being deployed in net current assets as on March 31, 2017. Further, average fund-based working capital utilization continued to remain high during trailing 12-months ended October 2017. Furthermore, operating cycle remains elongated to 146 days for FY17 largely on account of high inventory holding days.

Presence in single segment of dyes industry along with stiff competition: Spectrum's revenue is concentrated to one segment of the dyes industry – disperse dyes. Disperse dyes finds 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 of revenue as majority of its revenue is earned from domestic market (around 85%) with major concentration in the local Surat market. It also faces stiff competition from few organized players and large number of unorganized players besides the threat from Chinese imports.

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. Hence, Spectrum is also exposed to adverse fluctuation in foreign currency exchange rate on its raw material cost especially in the absence of an active hedging policy. However, forex risk is partially mitigated through the natural hedge in terms of export sales.

Risk related to continuous compliance of the pollution control norms in cyclical chemical industry: Strict adherence to pollution control norms is foremost for all companies operating in the chemical industry. Any violation of compliance norms may adversely impact the operation of the company and hence continue compliance of pollution control norms remains crucial from the credit perspective. Spectrum has regularly invested in the plant and machineries to make it environment complainant over the years.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]

About the Company
Spectrum, the flagship company of the Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. The company is engaged into 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 around 175 different shades of disperse dyes and some dye intermediates with main focus on the basic colours viz blue, black and red. Spectrum has an installed capacity of 17,500 metric tonnes per annum (MTPA) as on September 30, 2017.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total operating income	348.63	406.69
PBILDT	44.16	55.07
PAT	13.49	16.75
Overall gearing (times)	1.35	1.17
PBILDT Interest coverage (times)	3.23	3.77

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

Analyst Contact
Name: Mr. Krunal Modi
Tel: 079-40265614
Mobile: +91-8511190084
Email: krunal.modi@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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
Non-fund-based - ST-Bank Guarantees	NA	NA	NA	9.00	CARE A3+
Term Loan-Long Term	NA	NA	March 2022	65.23	CARE BBB+; Stable
Fund-based-LT/ST	NA	NA	NA	120.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit	NA	NA	NA	0.60	CARE A3+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-Bank Guarantees	ST	9.00	CARE A3+	-	1)CARE A3+ (09-Jan-17)	1)CARE A3 (17-Dec-15)	1)CARE A3 (13-Nov-14)
2.	Term Loan-Long Term	LT	65.23	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Jan-17)	1)CARE BBB- (17-Dec-15)	1)CARE BBB- (13-Nov-14)
3.	Fund-based-LT/ST	LT/ST	120.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (09-Jan-17)	1)CARE BBB- / CARE A3 (17-Dec-15)	1)CARE BBB- / CARE A3 (13-Nov-14)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.60	CARE A3+	-	1)CARE A3+ (09-Jan-17)	1)CARE A3 (17-Dec-15)	1)CARE A3 (13-Nov-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691