

Spectrum Dyes & Chemicals Private Limited

January 03, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long/Short-term Bank Facilities	145.00 (Enhanced from Rs.120.00 crore)	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Reaffirmed
Long-term Bank Facilities	175.81 (Enhanced from Rs.65.23 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	11.60 (Enhanced from Rs.9.60 crore)	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	332.41 (Rupees Three Hundred Thirty Two Crore and Forty One Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) continues to take into account the wide experience of the promoters in the field of textile and chemicals Industry, dominant position of Spectrum in disperse dyes segment having established manufacturing operations, in-depth product line, wide 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. The ratings also derive strength from consistent growth in total operating income backed by optimum capacity utilisation, moderate profitability and debt coverage indicators and healthy operational efficiency due to continuous capex for up-gradation and modernization of manufacturing facilities.

The ratings, however, continue to be constrained on account of risk associated with volatility in raw-material prices especially on the back drop of disruption in China, 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 apart from Spectrum's propensity to support the operation of group company under the corporate guarantee obligation. The ratings also constrained due to on-going large size debt funded capex which is likely to moderate its capital structure and debt coverage indicators in medium term.

Ability of Spectrum to implement and stabilize on-going large size capex within envisaged time and cost parameter and in turn achieve envisaged benefits and improvement in profitability margins amidst volatility in raw material prices & exchange rate fluctuations shall remain the key rating sensitivities. Moreover, effective management of working capital and continue adherence to the pollution control norms are also critical from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

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 30 years of experience in textile processing & chemical Industry. The Pratibha group has its presence in various segments of the textile value chain through nine different entities (including Spectrum) having total revenue of nearly Rs.1,600 crore. The promoters have also supported the overall operations of the company through gradual equity infusion over past few years.

Dominant player in disperse dye segment having established manufacturing operations: Spectrum manufactures around 175 different shades of disperse dyes and some intermediates of varied colors which are used in dyeing and printing of polyester fabrics. Moreover, the company has various accreditations and certifications like ISO 9001:2015, ISO 14001:2015, BS OHSAS 18001:2007, Bluesign, etc. 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 generates nearly 40% of its gross sales under B2B (Business to Business) segment while remaining 60% sales are through distribution network of agents/distributors spread across various dye-consuming centres in the country. Spectrum has market share of nearly 25-30% in disperse dyes segment. Spectrum operates at more than 95% of capacity utilization and considering the growing demand of its products, it is further in process to increase its capacity of the existing facility at Palsana, Surat, by 25% to 24,750 MTPA from existing 19,800 MTPA. The cost of expansion project is estimated to be Rs.54 crore which is being funded by term loan of Rs.38 crore and balance through mix of internal accruals, fresh equity and unsecured loans.

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

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 center and benefits from lower logistic expenses.

Consistent growth in total operating income and moderate profitability: The total operating income (TOI), which registered a compounded annual growth rate (CAGR) of 11% during past three years ended FY18, grew by nearly 18% during FY18 mainly on account of increased production and sales volume backed by continuous capacity expansion along with optimum utilization of installed capacities. The PBILDT margin although declined during FY18 over FY17, it continued to stand moderate at 12.34% for FY18. Further, as per the provisional results, TOI grew by 34% on y-o-y basis during H1FY19 and stood at Rs.320.22 crore with improvement in PBILDT margin which stood at 12.65%. Moreover, despite continuous investment in capex which was partly funded through term debts, the leverage of Spectrum improved marginally and stood moderate with an overall gearing ratio of 1 time as on March 31, 2018. However, going forward, it is expected to deteriorate marginally on the back of large sized debt funded capex plans.

Key Rating Weaknesses

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 cyclicity 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.

Stabilization risk associated with the backward integration project: Spectrum is setting up a new plant at GIDC Saykha for manufacturing of some intermediate products as a backward integration with installed capacity of 3,600 MTPA. The total cost of the project (without land cost) is approximately Rs.120 crore which is expected to be funded by term loan of Rs.97 crore and balance through internal accruals/ unsecured loans promoters. The project is expected to be completed by FY20. Going forward, Spectrum will enjoy backward integration benefits for manufacturing of dyes intermediates which will protect it against the price volatility to an extent and ensure uninterrupted manufacturing of dyes while maintaining desired quality resulting in improvement in its profitability margin. The backward Integration facility is for captive use only which reduces the saleability risk. However, proper and timely execution of the project and subsequent early stabilization will remain crucial from credit perspective. Moreover, with drawal of term loans for on-going projects, the leverage and debt coverage indicators of the company is likely to weaken in medium term.

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.

Liquidity Analysis: The operations of Spectrum continues to remain working capital intensive in nature with more than 57% of its total operating capital employed being deployed in net current assets as on March 31, 2018. Further, average fund-based working capital utilization continued to remain high around 80% during trailing 12 months ended October 2018. The operating cycle improved; however, remained elongated at 120 days for FY18, as against 146 days for FY17; largely on account of inventory rationalization. The liquidity of the company is adequately supported by steady cash accruals of Rs.32 crore and strong cash flow from operations of Rs.66 crore during FY18 as against the near term debt repayment obligation of around Rs.14-15 crore over next two years i.e. FY19 and FY20.

Propensity to support under the corporate guarantee obligation albeit reduction in exposure of corporate guarantee: Spectrum has continuously reduced the amount of corporate guarantee extended to group companies and as on March 31, 2018, outstanding corporate guarantee stood at Rs.151.15 crore which include major exposure of Rs.145.41 crore

extended towards the bank facilities availed by Anubha Industries Private Limited (AIPL). Considering the outstanding corporate guarantee, the adjusted overall gearing ratio of Spectrum stood at 1.96 times as on March 31, 2018.

AIPL is engaged in manufacturing of denim fabric and had set-up a green-field project during FY15. During FY18, AIPL has earned a total operating income of Rs.306.98 crore, PAT of Rs.7.53 crore and GCA of Rs.17.04 crore. AIPL's presence in cyclical denim fabric industry with recent weak industry scenario makes its operation susceptible. Hence, considering the operational and financial profile of the AIPL, it increases the Spectrum's propensity to support the operation under the corporate guarantee obligation.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Methodology for Factoring Linkages in Ratings](#)

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 19,800 metric tonnes per annum (MTPA) as on September 30, 2018.

(Rs. Crore)

Brief Financials of Spectrum	FY17 (A)	FY18 (A)
Total operating income	406.69	479.03
PBILDT	55.07	59.10
PAT	16.75	16.72
Overall gearing (times)	1.17	1.00
PBILDT Interest coverage (times)	3.77	3.37

A: Audited

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.

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	11.00	CARE A3+
Term Loan-Long Term (Proposed)	-	-	September 2026 (tentative)	122.00	CARE BBB+; Stable
Term Loan-Long Term	-	-	March 2022	53.81	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	145.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-Fund-based - ST-Bank Guarantee	ST	11.00	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (09-Jan-17)	1)CARE A3 (17-Dec-15)
2.	Term Loan-Long Term (including proposed)	LT	175.81	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB; Stable (09-Jan-17)	1)CARE BBB- (17-Dec-15)
3.	Fund-based-LT/ST	LT/ST	145.00	CARE BBB+; Stable/ CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (28-Dec-17)	1)CARE BBB; Stable / CARE A3+ (09-Jan-17)	1)CARE BBB- / CARE A3 (17-Dec-15)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.60	CARE A3+	-	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (09-Jan-17)	1)CARE A3 (17-Dec-15)

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