

Spectrum Dyes & Chemicals Private Limited

January 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	78.13 (enhanced from Rs.64.43)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB- (Triple B Minus)
Long/Short-term Bank Facilities	120.00 (enhanced from Rs.110.00)	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)	Revised from CARE BBB- / CARE A3 (Triple B Minus / A Three)
Short-term Bank Facilities	9.60	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	207.73 (Rupees Two Hundred Seven crore and Seventy-three lakh only)		

Details of facilities in Annexure-1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) takes into account the significant reduction in the support provided to the group entities by way of corporate guarantees leading to improvement in its financial flexibility. The ratings of Spectrum continue to take into account the wide experience of the promoters in the field of textile and chemicals businesses, established track record of Spectrum in the disperse dye industry along with the benefit of the plant being located in the chemical belt and proximity to the main consumption centre. The ratings also continue to take into account steady growth in the total operating income of Spectrum along with moderate profitability, leverage and debt coverage indicators, depth of its product-line backed by established agent/distribution network and long-standing relationship with its customers. 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 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

Being the flagship company of the Surat-based Pratibha group, Spectrum had continuously increased the exposure in terms of corporate guarantees for the bank facilities of various group entities over the past five years ended FY15 (refers to the period April 1 to March 31), which stood at Rs.370 crore as on March 31, 2015 and leading to high adjusted overall gearing of 4.67 times. However, the bankers have released the corporate guarantee of Spectrum for two group entities during FY16 and H1FY17. Hence, the amount of corporate guarantee extended reduced significantly at Rs.223 crore as on March 31, 2016 and further to Rs.163 crore as on September 30, 2016 leading to significant improvement in the adjusted overall gearing at 2.56 times as on September 30, 2016 which leads to improvement in its financial flexibility.

The Pratibha group is a three decade old group having business interests in the field of textile and related business segments. The group has multiple manufacturing units across diverse businesses such as textile processing houses, manufacturing of disperse dyes, manufacturing of nylon yarn, weaving of linen fabrics and embroidery work etc. Spectrum has an established manufacturing track record of more than 25 years in dyes business. The promoters have also supported the overall operations of the company through gradual equity infusion over past few years.

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 which is also a hub for polyester textile wherein disperse dyes are used for dyeing and printing. In view of strategic location of the plant, Spectrum enjoys proximity to the main

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

consumption center and benefits from lower logistic expenses. Moreover, Spectrum, being the second largest manufacturer of disperse dyes in India, has a strong agent/distributor network. While nearly 45% of its gross sales in FY16 were directly to the clients, the remaining 55% were generated through its marketing network of agents/distributors spread across various dye-consuming centres in the country.

However, 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 90%*) 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.

The total operating income, which registered a compounded annual growth rate (CAGR) of 13% during past three years ended FY16, declined marginally by 4% during FY16 despite increase in production and sales volume largely on account of reduced average sales realisation for the year considering the fall in crude oil and its derivative prices. However, the PBILDT margin improved significantly by 280 bps and stood moderate at 12.67% for FY16 on the back of savings on crude linked raw material prices coupled with fuel efficiency and yield improvement post modernisation capex. Further, improved profitability along with nearly stable total operating income led to 50% growth in GCA at Rs.27.94 crore for FY16.

The 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, 2016 and high average fund-based working capital utilization at 92% during trailing 12-months ended August 2016. Further, operating cycle elongated to 142 days for FY16 largely on account of increased finished goods inventory holding post enhancement in installed capacity during the year.

Strict adherence to pollution control norms is foremost for all companies operating in the chemical industry. Spectrum has regularly invested in the plant and machineries to make it environment complainant over the years. Spectrum incurred the capex of nearly Rs.70 crore over past two years ended FY16 towards infrastructure up-gradation and replacement of more than 20 years old disperse dye plant. Further to this, Spectrum has also envisaged fresh investment of nearly Rs.30 crore towards modernization of other infrastructure and utilities over FY17 and FY18 which would be funded through mix of the sources.

The basic raw material 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. Moreover, Spectrum sources its raw material both from domestic as well as international markets. Imports as a percentage of total cost of raw material consumed remained around 45% over past three years ended FY16. 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 which comprised nearly 10% of gross sales during FY16.

Analytical approach: Standalone

Applicable Criteria:

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

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

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

[Criteria for Short Term Instruments](#)

[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 fabric. Located at Palsana (near Surat) in Gujarat, Spectrum is the second-largest manufacturer of disperse dyes in India.

Spectrum manufactures around 150 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 13,500 metric tonnes per annum (MTPA) as on March 31, 2016.

As per the audited result for FY16, Spectrum reported a PAT of Rs.13.49 crore on a total operating income of Rs.348.63 crore as against a PAT of Rs.10.19 crore on a total operating income of Rs.361.38 crore in FY15. Further, as per the unaudited result for H1FY17, Spectrum earned a PBT of Rs.9.44 crore on a total operating income of Rs.198.35 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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Annexure 1Details of 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	-	-	-	9.00	CARE A3+
Term Loan-Long Term	-	-	November 2022	78.13	CARE BBB; Stable
Fund Based-LT/ST	-	-	-	120.00	CARE BBB; Stable / CARE A3+
Non-Fund Based - ST-Credit Exposure Limit	-	-	-	0.60	CARE A3+

Annexure 2Rating History for 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non-Fund Based - ST-Bank Guarantees	ST	9.00	CARE A3+	-	CARE A3 (17-Dec-15)	CARE A3 (13-Nov-14)	CARE A3 (12-Aug-13)
2.	Term Loan-Long Term	LT	78.13	CARE BBB; Stable	-	CARE BBB- (17-Dec-15)	CARE BBB- (13-Nov-14)	CARE BBB- (12-Aug-13)
3.	Fund Based-LT/ST	LT/ST	120.00	CARE BBB; Stable / CARE A3+	-	CARE BBB- / CARE A3 (17-Dec-15)	CARE BBB- / CARE A3 (13-Nov-14)	CARE BBB- / CARE A3 (12-Aug-13)
4.	Non-Fund Based - ST-Credit Exposure Limit	ST	0.60	CARE A3+	-	CARE A3 (17-Dec-15)	CARE A3 (13-Nov-14)	CARE A3 (12-Aug-13)

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