

Spectrum Dyes & Chemicals Private Limited

October 03, 2019

Ratings

Facility	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	79.98	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	145.00	CARE BBB+; Stable/CARE A2 [Triple B Plus; Outlook: Stable/A Two]	Long-term rating reaffirmed and Short-term rating revised from CARE A3+ (A Three Plus)
Short-term Bank Facilities	11.60	CARE A2 [A Two]	Revised from CARE A3+ (A Three Plus)
Total facilities	236.58 (Rs. Two Hundred Thirty Six Crore and Fifty Eight Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in short-term rating assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) takes into account the improvement in its liquidity position as reflected from the shortening of its operating cycle and lower utilization of its fund-based working capital limits on the back of healthy cash flow generation which has also led to improvement in its debt coverage indicators.

The ratings assigned to the bank facilities of Spectrum continue to take into account the wide experience of its promoters in chemical and textile industry, good position of Spectrum in the disperse dyes segment having established manufacturing operations with continuous up-gradation and modernization of its manufacturing facilities, in-depth product line with wide agent/ distributor network and location benefit in terms of presence in the chemical belt and proximity to the main consumption centre. The ratings also derive strength from consistent growth in its total operating income backed by optimum capacity utilization, moderate leverage and improvement in debt coverage indicators.

The ratings, however, continue to be constrained on account of Spectrum's propensity to support the operations of group company under the corporate guarantee obligation, its presence in a single segment of the dyes business, industry risk related to continuous compliance with the prevailing pollution control norms, presence in the cyclical chemical industry and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuation risk.

Spectrum's ability to improve its scale of operations and leverage while maintaining healthy profitability whilst effectively managing its working capital requirement and continually adhere to pollution control norms are the key rating sensitivities. Any large sized debt funded capex adversely impacting its debt coverage indicators would also be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in its scale of operations and profitability: Total operating income (TOI) of Spectrum has grown at a CAGR of 23% over the past three financial years ending FY19 owing to increased demand of disperse dyes in the domestic as well as export market and supply disruption in China with implementation of stringent pollution control norms supported by increase in installed capacity and modernization of its plant. In FY19, TOI grew by a healthy rate of 36% from Rs. 479.03 crore in FY18 to Rs. 654.02 crore in FY19 wherein exports almost doubled from Rs.83.16 crore in FY18 to Rs.158.79 crore in FY19. The PBILDT margin has also improved by 199 bps during FY19 to 14.33% as against 12.34% during FY18. Consequently PAT margin had also improved. Furthermore, as per provisional results for 4MFY20, Spectrum had reported TOI of 247.02 crore with PBILDT margin of 17.50%.

Experienced promoters and established track record in the disperse dye industry in India: 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 through their association with various group companies. 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.1,743 crore in FY19. The promoters have also supported the overall operations of the company through gradual equity infusion over the period.

Growing presence in the disperse dyes segment on the back of its established manufacturing set-up which is supported by the depth of its product-line and strong agent/ distribution network: Spectrum has established manufacturing operations and over the period it had invested to increase its capacity with up gradation and modernization of its

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

manufacturing facility leading to improvement in its operational efficiency and compliance of pollution control norms. In past four years ending FY19, Spectrum has been operating at more than 90% of its capacity. Recently, it has also completed expansion project of disperse dyes within time and cost parameters to increase its capacity by 4,950 MTPA which became operational from June, 2019.

Spectrum is the second largest manufacturer of disperse dyes in India and has a long-standing relationship with its established clientele and agent/distributor network. It has been gradually increasing its market share in the disperse dyes segment. Spectrum generates nearly 45% of its gross sales under B2B (Business to Business) segment while remaining 55% sales are through distribution network of agents/distributors spread across various dye-consuming centres in the country. Spectrum manufactures around 225 different shades of disperse dyes and some intermediates of varied colours which are used in dyeing and printing of polyester fabrics. Moreover, the company is one star export house and has various accreditations and certifications like ISO 9001:2015, ISO 14001:2015, BS OHSAS 18001:2007, Bluesign, Authorized Economic Operator-T2 certificate.

Benefit of plant being located in the chemical belt along with proximity to the main consumption centre: Spectrum is located in Gujarat wherein several prominent chemical clusters are situated thereby providing easy access to raw materials. Furthermore, Spectrum has major focus on the domestic market with around 49% of its sales in FY19 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 consumption centre and benefits from lower logistic expenses.

Moderate leverage and improvement in debt-coverage indicators: The capital structure of Spectrum though improved but remained at moderate level marked by overall gearing of 0.81 times as on March 31, 2019 as against 1.00 times on the back of steady accretion of profit to reserves; albeit high pay-out of Director's remuneration has restricted further build-up of its net worth base. The adjusted overall gearing considering corporate guarantee extended to its group company, Anubha Industries Private Limited (AIPL), stood at 1.31 times as on March 31, 2019.

In FY19, the debt coverage indicators had also improved due to increase in profitability resulting in Total debt to Gross Cash Accruals (TDGCA) of 2.82 years and interest coverage of 6.17 times as compared to 4.85 times and 3.37 times in FY18 respectively. As per provisional results for 4MFY20, its interest coverage further improved to 7.49 times.

Liquidity: Adequate: The liquidity position of Spectrum has improved and remained adequate marked by healthy cash flow generation against low debt repayments, improvement in operating cycle to 93 days in FY19 from 120 days in FY18 and cushion derived from lower fund-based working capital limit utilization. Current ratio and quick ratio stood at 1.19 times and 0.72 times as on March 31, 2019. The current ratio further improved to 1.27 times as of end-4MFY20. The average fund based working capital limit utilization during the five months ending August-2019 reduced to 70% as against 83% for the seven months ending March-2019. The cash and bank balance stood at Rs. 8.68 crore as on March 31, 2019 with healthy cash flow from operations of Rs. 59.83 crore during FY19.

Key Rating Weaknesses

Propensity to support the operations of a group company under the corporate guarantee obligation; albeit gradual reduction in such exposure: Although Spectrum has gradually reduced the amount of corporate guarantee extended to its group companies, the amount of corporate guarantee outstanding as on March 31, 2019 was still high at Rs.99.89 crore which entirely includes its exposure towards part of the bank facilities availed by AIPL (the amount of such bank facilities stood at Rs.93.08 crore out of total availed bank limits of Rs.151.24 crore as on August 31, 2019). AIPL is engaged in manufacturing of denim fabric and had set-up a green-field project during FY15. During FY19, AIPL had earned a total operating income of Rs.295.30 crore and reported net loss of Rs.5.35 crore. Spectrum had provided financial support to the company by infusing funds to the tune of Rs. 16.76 crore in FY19 through a mix of equity and unsecured loans.

AIPL's presence in the cyclical denim fabric industry with recent weak industry scenario due to supply glut makes its operations even more susceptible. Hence, considering the operational and financial profile of AIPL, it increases Spectrum's propensity to support its operations under the corporate guarantee obligation.

Presence in single segment of dyes industry: Spectrum's revenue is concentrated to one segment of the dyes industry – disperse dyes. Disperse dyes find 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 as majority of its revenue is earned from domestic market (around 79% in FY19) with major concentration in the local Surat market. It also faces competition from a large organized player besides the threat from Chinese imports in long run. However, presently Spectrum derives benefits from favorable demand scenario reflected in growth in operations in domestic as well as export markets with high utilization of its capacity.

Industry risk related to requirement of continuous adherence to regulatory compliance to pollution control norms: 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 environmentally compliant over the years. Spectrum is active

towards balancing and minimizing the possible adverse impact of dyes on health and environment by treatment of waste water through effluent treatment and incineration process including operation and maintenance of hazardous waste land fill site (same is being outsourced to third party). Many small chemical units not complying with pollution control norms are getting closed down. In this backdrop, continuous compliance with pollution control norms by Spectrum as has been done in the past would be crucial for smooth running of its operations without any closure of production facility.

Susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuations: 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. Also, it exports its products to China, USA, Korea, Taiwan among others. Hence, Spectrum's profitability is susceptible to adverse movement in forex rate in light of absence of active hedging policy. However, with significant exports (USD 22.64 million) spectrum has natural hedge available against its imports (USD 21.55 million) thereby mitigating exchange rate fluctuation risk to a larger extent.

Analytical approach: Standalone along with factoring in the corporate guarantee extended by the company. Spectrum has extended unconditional and irrevocable corporate guarantee for part of the bank facilities availed by Anubha Industries Private Limited (for bank facilities of Rs.99.89 crore out of total availed bank limits of Rs.157.07 crore as on March 31, 2019).

Applicable Criteria:

[Criteria on assigning Outlook and Credit Watch 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](#)

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

About the Company

Spectrum (CIN: U24110MH1989PTC176088), the flagship company of the Surat-based Pratibha Group, was promoted by Mr M. K. Chaudhary in 1989. The company is engaged in 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 225 different shades of disperse dyes and some dye intermediates with main focus on the basic colours viz. blue, black and red.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	479.03	654.02
PBILDT	59.10	93.72
PAT	16.72	40.85
Overall gearing (times)	1.00	0.81
Interest coverage (times)	3.37	6.17

A-Audited

As per the provisional results for 4MFY20, Spectrum earned a PBILDT of Rs.43.24 crore on a TOI of Rs.247.02 crore.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable

Rating History for 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
Non-fund-based - ST-Bank Guarantees	-	-	-	11.00	CARE A2
Term Loan-Long Term	-	-	September, 2025	79.98	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	145.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.60	CARE A2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A2	-	1)CARE A3+ (03-Jan-19)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (09-Jan-17)
2.	Term Loan-Long Term	LT	79.98	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Jan-19)	1)CARE BBB+; Stable (28-Dec-17)	1)CARE BBB; Stable (09-Jan-17)
3.	Fund-based-LT/ST	LT/ST	145.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A3+ (03-Jan-19)	1)CARE BBB+; Stable / CARE A3+ (28-Dec-17)	1)CARE BBB; Stable / CARE A3+ (09-Jan-17)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.60	CARE A2	-	1)CARE A3+ (03-Jan-19)	1)CARE A3+ (28-Dec-17)	1)CARE A3+ (09-Jan-17)

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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