

## Spectrum Dyes and Chemicals Private Limited

November 25, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	82.79 (Enhanced from 79.98)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	172.19 (Enhanced from 145.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Short Term Bank Facilities	11.60	CARE A2 (A Two)	Reaffirmed
<b>Total Facilities</b>	<b>266.58</b> <b>(Rs. Two Hundred Sixty-Six Crore and Fifty-Eight Lakhs Only)</b>		

*Details of instruments/ facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Spectrum Dyes & Chemicals Private Limited (Spectrum) continue to derive strength from the wide experience of its promoters, established position of Spectrum in the disperse dyes market having semi-integrated 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 the growth in its scale of operation supported by optimum capacity utilization and improvement in profitability during FY20 (FY refers period from April 1 to March 31), moderate leverage along with adequate debt coverage indicators and liquidity.

The ratings, however, continue to be constrained on account of its presence in a single segment of the dyes business, industry risk related to adherence to the strict pollution control norms, presence in the cyclical chemical industry and susceptibility of its profitability to volatile raw material prices and foreign exchange fluctuation risk. The ratings are further constrained due to Spectrum's propensity to support the operations of weaker group company under corporate guarantee obligation and significant increase in loans and advances extended, a part of which was to third parties. The ratings also take cognizance of moderation in its performance during H1FY21 due to impact of Covid-19 pandemic and moratorium availed on the repayment obligations of its bank facilities for the period from March-2020 to August-2020 as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines.

### Rating Sensitivities

#### Positive Factors

- Increase in TOI over Rs.1000 crore with adjusted overall gearing below 0.75x on sustained basis
- Improvement in gross operating cycle days (inventory + receivables) below 110 days on sustained basis
- Significant reduction in its exposure to weaker group companies

#### Negative Factors

- Decline in TOI below Rs.500 crore on sustained basis
- Any large debt funded capex or significant stretch in working capital requirements leading to deterioration in its overall gearing beyond 1.50x on sustained basis
- Elongation in its operating cycle beyond 150 days on sustained basis
- Increase in investment and/or loans & advances beyond 40% of its tangible net-worth

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced management 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 over 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). The promoters have also supported the overall operations of the company through gradual equity infusion over the period.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**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 has invested to increase its capacity with up-gradation and modernization of its manufacturing facility leading to improvement in its operational efficiency and compliance with pollution control norms. Spectrum has increased its installed capacity from 19,800 MT to 24,750 MT, 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 46% of its gross sales under B2B (Business to Business) segment while remaining 54% 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 center:** 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 46% of its sales in FY20 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.

**Growth in total operating income (TOI) with healthy profitability margin in FY20; albeit moderation in performance in H1FY21 amidst Covid 19 disruption:** TOI of Spectrum grew at healthy rate of 18.83% from Rs.654.02 crore during FY19 to Rs.777.17 crore during FY20 on the back of growth in sales volume as well as increase in avg. realization. Sales volume registered y-o-y growth of 12% on the back of strong demand in the export as well as domestic market. These coupled with increase in the avg. realizations (wherein avg. realization from export sales grew significantly during FY20 on y-o-y basis) led to the TOI growth during FY20.

Spectrum has healthy profit before interest, lease, depreciation and tax (PBILDT) margin which improved by 130 bps to 15.63% during FY20. The improvement in profitability was on account of increase in avg. realization on the back of moderation in the raw material cost during the year. Increase in PBILDT level along with reduction in the tax rate, resulted in improved profit after tax (PAT) margin from 6.24% in FY19 to 8.22% during FY20 despite increase in the depreciation as well as interest cost. Further, gross cash accruals (GCA) also grew by 43% to Rs.81.66 crore during FY20.

#### **Impact of COVID-19 pandemic**

Manufacturing plant of Spectrum was shut down from March 22, 2020 due to enforcement of lockdown by the government across the nation. It received permission to resume operations from April 20, 2020 post which its operations were gradually ramped-up. Its operations during H1FY21 were also impacted by muted demand from textile industry and fall in export demand. Spectrum had availed the moratorium, on the repayment obligations of its bank facilities for the period from March-2020 to August-2020 to conserve its liquidity, in light of the Covid 19 pandemic. However, subsequently, with gradual ramp-up in operations it has repaid all its dues pertaining to the moratorium availed.

Performance of Spectrum witnessed moderation during H1FY21 marked by TOI of Rs.205.07 crore with PBILDT of Rs.25.24 crore; the lower absorption of fixed cost resulted in decline in PBILDT margin during this period. However, demand has gradually picked up and as articulated by the management, company has achieved Pre-Covid level monthly sales for the month of September 2020.

**Moderate leverage and adequate debt-coverage indicators:** Despite the regular capex, Spectrum has moderate capital structure marked by overall gearing of 0.87x as on March 31, 2020 as compared with 0.81x as on March 31, 2019 on the back of steady accretion of profit to reserve; albeit high pay-out of director's remuneration has restricted further build-up of its net-worth base. Total debt of Spectrum increased from Rs.161.39 crore as on March 31, 2019 to Rs.229.12 crore as on March 31, 2020 due to increase in the term loan which was taken for funding the expansion project along with increase in the working capital borrowing and infusion of unsecured loan by the promoters during FY20.

Spectrum has provided its corporate guarantee to the bank facilities of its group company i.e. Anubha Industries Private Limited (AIPL). Considering the guaranteed debt, Spectrum had adjusted total debt of Rs. 314.52 crore as on March 31, 2020 and its adj. overall gearing remained moderate at 1.20x as on March 31, 2020 as compared with 1.31x as on March 31, 2019. Total outside liabilities (TOL) / (tangible net-worth) TNW too remained moderate at 1.41x as on March 31, 2020.

However, the debt coverage indicators of Spectrum remained adequate marked by total debt to GCA (TDGCA) of 2.81x and PBILDT interest coverage of 6.99x during FY20 as compared with 2.82x and 6.17x during FY19.

**Liquidity: Adequate**

Spectrum has adequate liquidity marked by moderate debt repayment obligations against its healthy cash accruals and some cushion available in the form of un-utilized working capital limits. Avg. fund based working capital limit utilization remained moderate at 74.71% during past 12 months ended September 30, 2020. Further, Spectrum has enhanced its working capital limits by Rs.15.50 crore from the month of May-2020. It has also availed emergency credit line facility of Rs.14.50 crore, as a Covid relief measure, which will add cushion to its liquidity.

Current ratio and quick ratio remained moderate and improved from 1.19x and 0.72x respectively as on March 31, 2019 to 1.26x and 0.84x respectively as on March 31, 2020. Spectrum had cash and bank balance of Rs. 12.01 crore as on March 31, 2020. Cash flow from operations declined from Rs.57.05 crore during FY19 to Rs.23.70 crore during FY20 due to increase in loans and advances.

The operating cycle remained elongated at 100 days in FY20 as compared to 93 days in FY19. Gross operating cycle (inventory + receivables) days remained long at 134 days in FY20 as compared to 137 days in FY19.

**Key Rating Weaknesses**

**Spectrum's propensity to support the operation of a group company under the corporate guarantee obligation along with significant increase in loans and advances:** Spectrum has extended corporate guarantee to part of the bank facilities availed by AIPL aggregating Rs.85.40 crore as on March 31, 2020. AIPL is engaged in manufacturing of denim fabric and had set-up a green-field project during FY15. The company commenced the commercial production from March 2015. During FY20 AIPL has reported TOI of Rs.311.43 crore (FY19: Rs.291.89 crore) and reported a PAT of Rs.0.62 crore (FY19: Rs. (5.47) crore). It reported GCA of Rs.10.35 crore during FY20 (FY19: Rs. 4.21 crore). Since AIPL has high repayment obligations vis-à-vis its relatively meagre cash accruals, Spectrum had provided support to the company in form of equity infusion to the tune of Rs. 8.50 crore during FY20. Further, Spectrum has also extended unsecured loan of Rs.7.76 crore to AIPL as on March 31, 2020. AIPL's presence in cyclical denim fabric industry with recent weak industry scenario makes its operation susceptible to demand slowdown. Further, as informed by the management, AIPL has applied for the restructuring of its bank facilities due to Covid related stress which is under consideration of its banker; also Spectrum's corporate guarantee is not invoked by AIPL's lender. Hence, considering the weak operational and financial profile of AIPL, it increases Spectrum's propensity to support its operations under the corporate guarantee obligation, if required.

Apart from investment in its group companies, Spectrum has extended significant amount of loans and advances to its group companies as well as to various third parties aggregating Rs.65.81 crore as on March 31, 2020 as compared to Rs.15.49 crore as on March 31, 2019. Total investment and loans and advances stood at Rs.96.73 crore as on March 31, 2020 (Rs.35.26 crore as on March 31, 2019) forming 37% of its TNW as on March 31, 2020. Total investment and loans and advances though declined subsequently, it remained high at Rs.82.96 crore as on September 30, 2020. Timely recovery of these advances shall remain crucial from the credit perspective of Spectrum.

**Presence in the 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 76% in FY20) with major concentration in the local Surat market. It also faces competition from a large organized player in the sector 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:** Since companies engaged in the manufacturing of dyes/ dyes intermediates generate lot of hazardous waste, they have to adhere to stringent pollution control norms. Strict adherence to these 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 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. Also, it exports its products to China, Korea, Taiwan,

U.S.A., Egypt and Brazil among other countries. Hence, Spectrum's profitability is susceptible to adverse movement in forex rate in light of absence of active hedging policy. However, with significant exports (Rs.208.62 crore in FY20) spectrum has natural hedge available against its imports (Rs.144.12 crore in FY20) 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 AIPL (guaranteed debt of Rs.85.40 crore out of total availed bank limits of Rs.142.77 crore as on August 07, 2020).

**Applicable Criteria:**

[Criteria on assigning 'Outlook' and 'credit watch' 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](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Notching by 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. Spectrum had an installed capacity of 24,750 metric tonnes per annum (MTPA) as on June 30, 2020.

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.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	654.02	777.17
PBILDT	93.72	121.48
PAT	40.85	63.89
Overall gearing (times)	0.81	0.87
Adjusted Overall gearing (times)*	1.31	1.20
Interest coverage (times)	6.17	6.99

A: Audited; \*including corporate guarantee extended as debt

As per provisional results for H1FY21, Spectrum earned PBT of Rs.6.28 crore on TOI of Rs.205.07 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

**Covenants of rated instruments/facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Please refer Annexure-3.

**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	-	-	October 2025	82.79	CARE BBB+; Stable
Fund-based-LT/ST	-	-	-	172.19	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	11.00	CARE A2	-	1)CARE A2 (03-Oct-19)	1)CARE A3+ (03-Jan-19)	1)CARE A3+ (28-Dec-17)
2.	Term Loan-Long Term	LT	82.79	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-19)	1)CARE BBB+; Stable (03-Jan-19)	1)CARE BBB+; Stable (28-Dec-17)
3.	Fund-based-LT/ST	LT/ST	172.19	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (03-Oct-19)	1)CARE BBB+; Stable / CARE A3+ (03-Jan-19)	1)CARE BBB+; Stable / CARE A3+ (28-Dec-17)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.60	CARE A2	-	1)CARE A2 (03-Oct-19)	1)CARE A3+ (03-Jan-19)	1)CARE A3+ (28-Dec-17)

**Annexure 3: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-LT/ST	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Credit Exposure Limit	Simple
4.	Term Loan-Long Term	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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