

July 29, 2022

Ravi Dyeware Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term - Fund Based	59.00	35.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Short Term - Non Fund Based	24.00	-	-
Long Term / Short Term Fund based / Non-Fund Based	-	40.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Long Term / Short term – Unallocated	-	8.00	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Total	83.00	83.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the operational and financial profiles of Ravi Dyeware Company Private Limited (RDCPL) and Siddharth Colorchem Private Limited (SCPL), given the common promoters and significant operational and financial synergies between them. The consolidated entities include RDCPL, SCPL, and its subsidiaries, Indus Ventures Limited and Waterside Colors Limited (WCL).

The reaffirmation of the ratings reflects the Group's comfortable financial risk profile along with a healthy operating income and profitability. The financial risk profile is characterised by comfortable capital structure and debt coverage indicators, given its low dependence on working capital borrowings. Also, the liquidity position remains strong with sizeable current investment and buffer in working capital borrowing. The scale of operations remained healthy over the years and is expected to remain healthy, going forward, supported by favourable demand from key export markets as well as its expanding geographical reach. The ratings continue to derive comfort from the extensive experience of the Group's promoters and its long track record in the dye manufacturing business, coupled with its established and diversified customer base of large multinational companies, leading to repeat business.

The ratings, however, continue to be constrained by the high working capital intensive nature of operations, intense competition in the global markets from large and reputed players, and the vulnerability of its profitability to the fluctuations in raw material prices and foreign exchange rates to the extent of the Group's unhedged foreign exposure.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the Group shall continue to benefit from its extensive experience in the chemical dye industry. Healthy capacity utilisation levels, supported by favourable export demand prospects and limited dependence on external borrowings, shall help maintain the momentum in revenue growth and robust debt coverage metrics in the medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record; operational synergies from Group concerns – The Singhania Group, through its flagship entities, RDCPL and SCPL, has been manufacturing and trading dyes and dyestuffs for the last seven decades. It has developed an established track record in the chemical dye business through the vast experience of its promoters. The Group's operations are split across RDCPL and SCPL, along with its wholly-owned step-down subsidiary, WCL, in the UK, which is involved in the same business, resulting in significant operational synergies at the Group level.

Diversified and reputed customer base providing repeat orders - The Group has a reputed customer base, which includes large multinational corporations in Europe and Asia. Its customer base is well diversified, and the Group is able to garner repeat orders from its key customers YoY due to healthy relationships with them.

Group's healthy profitability and cash accruals; comfortable capital structure and strong debt coverage indicators - At a consolidated level, the financial profile of the company continues to be robust, reflected in its healthy cash accruals and comfortable capital structure with a gearing of 0.2 times as on March 31, 2022 (0.1 times as on March 31, 2021). It reported strong debt coverage indicators, reflected in an interest cover of 18 times, total debt/OPBDITA of 1.1 times and NCA/total debt of 83% in FY2022.

The operating revenues of the Group have consistently increased at a ~6.9% CAGR between FY2018 and FY2022, supported by healthy capacity utilisation levels and favourable export demand for its products. The expanding geographical reach from new customer additions as well as its widening distribution network has led to a consistent rise in consolidated revenues to Rs. 583.5 crore in FY2022 from Rs. 447.5 crore in FY2018. Going forward, the healthy growth in operating income is likely to be supported by favourable demand from key export markets and its expanding geographical reach.

Credit challenges

Profitability exposed to fluctuations in raw material prices and foreign exchange rates – The key raw materials for the company are crude oil derivatives, such as benzene, toluene, xylene, and naphthalene products. SCPL's operations and profitability are vulnerable to any adverse fluctuation in raw material prices, mainly crude oil. Further, apart from the natural hedge from exports and import purchases, the Group hedges its net exposure by way of forward cover, exposing the profitability to currency fluctuations for its unhedged exposure.

Further, the manufacturing operations are exposed to Government regulations related to pollution norms. The company remains vulnerable to increased regulatory scrutiny related to pollution norms, which remains a sensitivity factor

Competition in the market – There are numerous players operating in the business. This leads to stiff competition in the market and exerts pricing pressure on the Group. However, the entry barriers in the industry, in terms of quality, chemical usage, pollution control and approval, coupled with its preferred supplier status with end-user industries, provide it with a competitive advantage.

Liquidity position: Strong

At the consolidated level, the Group does not have any external long-term loans on its books as on March 31, 2022; and hence, there are no scheduled repayments. Further, it does not have any major debt-funded capacity expansion plans in the near to medium term. Its liquidity position remained strong, supported by free cash and bank balance of ~ Rs. 40 crore and liquid investments of ~ Rs. 218 crore as on March 31, 2022. The working capital utilisation remained low with a healthy buffer and low average utilisation of ~21% between January 2021 and May 2022. The fund flow from operations remained healthy in FY2022 primarily due to robust cash accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a sustained increase in the scale of operations along with sustained improvement in the profitability metrics and working capital cycle.

Negative factors – Negative pressure on the ratings could arise if a weakening of sales or moderation in profitability margins leads to lower-than-anticipated cash accruals. A stretch in the working capital cycle, or a major debt-funded capex impacting its liquidity position may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on consolidated financials of RDCPL and SCPL, along with its wholly-owned subsidiary, Indus Ventures Limited and step-down subsidiary, WCL.

About the company

RDCPL was incorporated in 1947 as Ravi Dye Chem and subsequently converted into a private limited company. It manufactures acid dyes, disperse dyes, solvent dyes and speciality dyes mainly for the leather, paper and textile industries. The company's manufacturing facility is at Taloja in Maharashtra, with an installed production capacity of 11,500 metric tonnes per annum. It exports over 60% of its total production to companies in Europe, North America, Latin America and Asia. It also owns a 15% equity stake in SCPL.

Key financial indicators (audited)

Consolidated	FY2021	FY2022 (Prov.)
Operating income	474.9	583.5
PAT	64.5	58.1
OPBDIT/OI	18.0%	11.9%
PAT/OI	13.6%	10.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.5
Total debt/OPBDIT (times)	0.5	1.1
Interest coverage (times)	43.6	17.6

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: As per CRISIL's press release dated June 15, 2022. Based on the last available information, the ratings on bank facilities of RDCPL continues to be 'CRISIL B+/Stable/CRISIL A4 Issuer not cooperating'."

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				July 29, 2022	Apr 7, 2021	-	Nov 7, 2019
1 Fund-based	Long term and short term	35.00	-	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1	-	[ICRA]A-(Stable)/ [ICRA]A2+
2 Non fund-based facilities	Short term	-	-	-	[ICRA]A(Stable)/ [ICRA]A1	-	[ICRA]A-(Stable)/ [ICRA]A2+
3 Fund-based/non fund-based	Long term and short term	40.00	-	[ICRA]A(Stable)/ [ICRA]A1	-	-	-
4 Unallocated limits	Long term and short term	8.00	-	[ICRA]A(Stable)/ [ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based	Simple
Fund-based/non fund-based facilities	Simple
Unallocated limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based	NA	NA	NA	35.0	[ICRA]A(Stable)/[ICRA]A1
NA	Fund-based/non fund-based facilities	NA	NA	NA	40.0	[ICRA]A(Stable)/[ICRA]A1
NA	Unallocated limits	NA	NA	NA	8.0	[ICRA]A(Stable)/[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	RDCPL Ownership	Consolidation Approach
Ravi Dyeware Company Private Limited	rated entity	Full Consolidation
Siddharth Colorchem Private Limited	15%	Full Consolidation
Indus Ventures Limited*	-	Full Consolidation
Waterside Colors Limited*	-	Full Consolidation

* wholly-owned subsidiary and step-down subsidiary of SCPL

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