

July 25, 2022

Mazda Colours Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	45.00	45.00	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Non-fund Based Limits	20.00	20.00	[ICRA]A1; reaffirmed
Total	65.00	65.00	

*Instrument details are provided in Annexure-1;

Rationale

The rating reaffirmation factors in the comfortable financial risk profile of Mazda Colours Limited (MCL) with improved revenues and comfortable capital structure and coverage metrics. The operating income increased to Rs. 504.5 crore in FY2022 from Rs. 351.5 crore in FY2021 as the production levels rose with enhanced capacity and higher realisation. Further, the rating takes note of the company's long operational track record, its established position in the domestic pigments industry, and its reputed customer base across diverse end-user industries.

The ratings, however, remain constrained by the exposure of profitability to the fluctuation in raw material prices, as evident in FY2022 when the operating margins declined to 9.5% in FY2022 from 14.8% in FY2021 due to increased raw material prices. Further, there is intense competition in the domestic and global markets from large and reputed players, limiting the company's pricing flexibility. ICRA also notes MCL's vulnerability to increased regulatory scrutiny related to pollution control norms, as well as the vulnerability of its profitability to adverse forex movements, although the natural hedge mitigates this risk to an extent.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that MCL will continue to maintain its credit profile over the medium term, aided by healthy cash accruals and limited reliance on external debt.

Key rating drivers and their description

Credit strengths

Established position in domestic pigments industry and operational history of over four decades – MCL has been manufacturing phthalocyanine pigments for over four decades. It is one of the largest producers of copper phthalocyanine crude (CPC) in India with a manufacturing capability of the complete range of phthalocyanine pigments.

Comfortable financial risk profile - The company's financial risk profile remains comfortable with improved scale and healthy capital structure and coverage metrics. The company's operating income increased to Rs. 504.5 crore in FY2022 from Rs. 351.5 crore in FY2021 as the production capacity at Roha, its Maharashtra facility, increased by 3,000 MT. The increased scale was further supported by improved realisation of the CPC and phthalocyanine pigments.

The capital structure remains comfortable, given the low debt level and healthy net worth position. The total debt was Rs.25.00 crore as on March 31, 2022 and was limited to short-term borrowing. Moreover, with limited debt, the finance cost also remains limited. Hence, the coverage indicators remained robust in FY2022, reflected in interest coverage of 51.2 times and NCA/TD of 274%. ICRA expects the financial risk profile of MCL to remain healthy over the medium term, aided by healthy cash accruals and limited reliance on external debt.

Strong customer base of paint, ink, rubber and plastic manufacturers – MCL's products find wide application in multiple industries, including paints, plastics, printing inks, detergents, rubber and textiles. The company has an established customer profile, which has resulted in repeat orders owing to its long presence in the pigments business. Its key customers include reputed players from the paint, leather, rubber and plastic industries. The company also sells colorants to reputed FMCG companies and rubber masterbatch (RMB) to footwear manufacturers.

Credit challenges

Exposure of profitability to raw material prices, foreign exchange and regulatory risks – The operating profitability remains exposed to the fluctuation in raw material prices as witnessed in FY2022, wherein the operating margins declined to 9.5% in FY2022 from 14.8% in FY2021, mainly due to the increased price of phthalic anhydride, urea and cuprous chloride. MCL's operations remain exposed to currency risks as ~35-40% of its revenues are derived from exports, while ~25-30% of its raw material requirements are met through imports. The company's profitability remains vulnerable to the volatile nature of the Indian rupee. However, the currency fluctuation risk is mitigated to an extent by the natural hedge.

Further, the manufacturing operations are exposed to Government regulations related to pollution norms, as its products have a significant environmental impact. ICRA notes that in the past there were restrictions on manufacturing activity at one of its plants; however, at present the company remains in compliance with the pollution norms and is making efforts to reduce the pollution impact.

Exposure to intense competition from organised as well as unorganised players – MCL is exposed to competition from the larger players in India and overseas, who provide a wider range of colour pigments. There are also several small players in the unorganised segment. However, the high entry barriers in the industry, in terms of quality, chemical usage, pollution control and approval, coupled with its preferred supplier status with the end-user industries, provide MCL with a competitive advantage.

Liquidity position: Adequate

The liquidity is expected to remain adequate with healthy expected cash accruals in FY2023-25 against a minimum maintenance-related capex of Rs. 2-3 crore per year, nil debt repayments and no major dividends or share buybacks. The share buybacks in FY2021 and FY2022 impacted the liquidity to an extent. However, the liquidity remains adequate. The working capital limit utilisation was 63.46% in the last six months ended June 2022. However, the working capital utilisation is expected to come down to less than 20% levels by FY2023 end.

Rating sensitivities

Positive Factors – The rating could be upgraded if there is a sustained increase in the scale of operations and improvement in the profitability metrics with RoCE above 20%.

Negative Factors - The rating could be downgraded if there is a sustained decrease in the scale of operations or profitability, or a higher-than-anticipated debt-funded capex, or a stretch in the working capital cycle that would weaken the liquidity position

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - CHEMICALS
Parent/Group support	Not applicable

Consolidation/Standalone

The ratings are based on the standalone financial statements of the company

About the company

Mazda Colours Limited (MCL), incorporated in 1972, was acquired in 1992 by the Choksey Group, led by Mr. Amit Choksey, the Chairman and Managing Director. At present, MCL is one of the largest CPC producers in India, with manufacturing capabilities of the complete range of phthalocyanine pigments. The company has two manufacturing units in Maharashtra and one in Gujarat.

Key financial indicators

APL	FY2021	FY2022*
Operating income (Rs. crore)	351.5	504.5
PAT (Rs. crore)	27.0	51.2
OPBDIT/OI (%)	14.8%	9.5%
PAT/OI (%)	7.7%	10.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.3	0.5
Interest coverage (times)	115.4	51.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 25, 2022	June 29, 2021	-	March 5, 2020
1	Fund-based Limits	Long Term/Short Term	45.00	-	[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A+ (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1
2	Non-fund Based Limits	Short Term	20.00	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit/Working Capital Demand Loan /Export Finance	Simple
Letter of Credit/Bank Guarantee	Very Simple

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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit/Working Capital Demand Loan /Export Finance	NA	NA	NA	45.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Letter of Credit/Bank Guarantee	NA	NA	NA	20.00	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

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