October 18, 2024

Mazda Colours Limited: Long-term rating downgraded to [ICRA]A-(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based limits	45.00	45.00	[ICRA]A-(Stable)/[ICRA]A2+; long-term rating downgraded from [ICRA]A(Stable), short-term rating reaffirmed
Short term – Non-fund based limits	20.00	20.00	[ICRA]A2+; reaffirmed
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Mazda Colours Limited (MCL) factors in the sustained decline in its operating profitability for FY2024, and the same is expected to remain moderate in the near term. The profitability has been impacted by subdued demand, reduced offtake of phthalocyanine pigments in the export market and an increase in raw material costs. The operating income declined to Rs. 362.9 crore in FY2024 from Rs. 392.8 crore in FY2023; however, it is expected to improve in FY2025. The operating margins reduced to ~0% in FY2024 from 1.5% in FY2023 and 9.5% in FY2022. 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 ratings, however, continue to favourably factor in MCL's long operational track record, its established position in the domestic pigments industry, and its reputed customer base with repeat orders from diverse end-user industries. The company's capital structure and coverage indicators remain comfortable, backed by its strong net worth base with minimal debt levels as of March 2024.

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 limited reliance on external debt.

Key rating drivers and their description

Credit strengths

Established position in domestic pigments industry and operational history of over five decades - MCL has been manufacturing phthalocyanine pigments for over five decades. It is one of the largest producers of copper phthalocyanine crude (CPC) in India, manufacturing the complete range of phthalocyanine pigments. Depending on the colour, CPCs are classified into blues and greens, with the blues being further sub-divided into alpha modification and beta modification. MCL manufactures and markets copper phthalocyanine blue and green pigments, and the intermediate product, CPC. The CPC crude pigment is partially sold in external market and is also used for captive consumption to manufacture blue and green pigments.

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 pigment 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.

Healthy capital structure - The company's capital structure remains comfortable, backed by its strong net worth base, with moderate debt levels of ~Rs. 6 crore (working capital debt) as of March 2024. The fund-based utilisation levels have reduced to nil over the last few months. Moreover, with only non-fund based limit utilisation, the finance cost remains limited. ICRA expects the financial risk profile of MCL to be aided by a strong balance sheet position with limited reliance on external debt and an expected improvement in cash accruals from FY2025.

Credit challenges

Decline in profitability in FY2023 and FY2024 and the same to remain moderate in the near term - The operating profitability remains exposed to subdued demand, as witnessed in FY2023 and FY2024 when the operating margins declined to 1.5% and 0%, respectively, from 9.5% in FY2022, mainly due to the global recessionary trends, the trade protection measures in China on the import of phthalocyanine pigments and an increase in raw material costs. The moderation in profitability is expected to continue in the near term.

Exposure of profitability to raw material prices, foreign exchange and regulatory risks - MCL's profitability remains exposed to fluctuations in raw material prices, as seen in FY2023 and FY2024, mainly due to the increased price of phthalic anhydride (PAN) and urea. The company's profitability remains vulnerable to foreign exchange fluctuations. However, the currency fluctuation risk is mitigated to an extent by the natural hedge through exports.
Further, the manufacturing operations are exposed to Government regulations related to pollution norms, as the products have a significant environmental impact. 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 moderate expected cash accruals in FY2025-FY2027 against a minimum maintenance capex of Rs. 2-3 crore per year, nil debt repayments, no major dividends or share buybacks and cash balance of ~Rs. 7.5 crore as on March 31,2024. The working capital utilisation has remained at nil levels during the last few months. The absence of major capex plans and no borrowings are likely to support the liquidity, going forward.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to improve profitability while maintaining healthy scale of operations and adequate liquidity position.

Negative factors – The ratings could be downgraded if there is a sustained decrease in the scale of operations or profitability, or a high 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](#) [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, manufacturing the complete range of phthalocyanine pigments. At present, the company manufactures a class of organic pigments - copper phthalocyanine crude (CPC)-based pigments. The company has two manufacturing units in Maharashtra and one in Gujarat.

Key financial indicators (audited)

MCL	FY2023	FY2024
Operating income	392.8	362.9
PAT	-9.6	-14.0
OPBDIT/OI	1.5%	0.0%
PAT/OI	-2.4%	-3.9%
Total outside liabilities/Tangible net worth (times)	0.0	0.0
Total debt/OPBDIT (times)	0.0	-104.9
Interest coverage (times)	3.4	-0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jun 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Oct 18, 2024	Sep 18, 2023	July 25, 2022	June 29, 2021
1	**Fund-based limits**	Long term and short term	45.00	--	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A (Stable)/[ICRA]A2+**	**[ICRA]A+ (Stable)/[ICRA]A1**	**[ICRA]A+ (Stable)/[ICRA]A1**
2	**Non-fund based limits**	Short term	20.00	--	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A1**	**[ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based limits	Simple
Short term – Non-fund based limits	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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]A2+**
NA	**Letter of credit/Bank guarantee**	NA	NA	NA	20.00	**[ICRA]A2+**

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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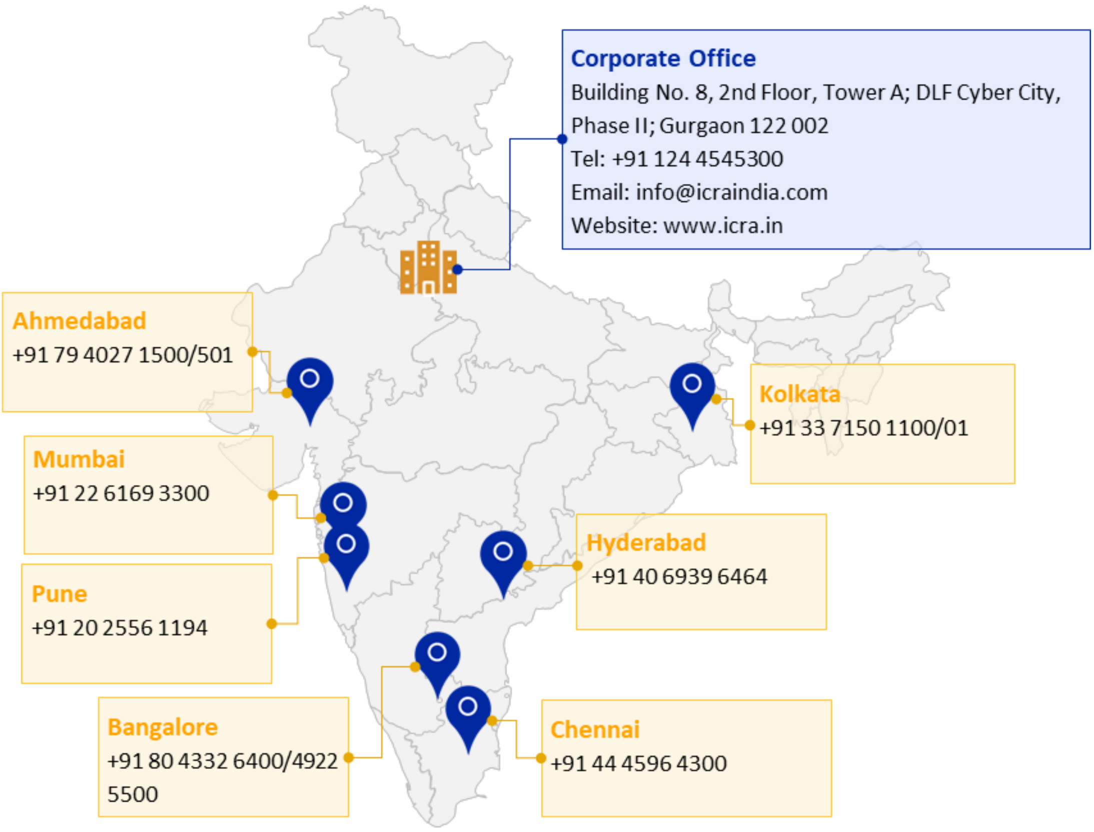

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