

March 15, 2017

Colorant Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits	9.55	Revised to [ICRA]BB- (Stable) from [ICRA]BB (Stable)
Non Fund Based Limits	2.00	[ICRA]A4; reaffirmed
Total	11.55	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long term rating to [ICRA]BB- (pronounced as ICRA double B minus)¹ from [ICRA]BB (pronounced as ICRA double B) assigned to the Rs. 9.00 crore² cash credit facility and the Rs. 0.55 crore term loans of Colorant Limited (CL). ICRA has also reaffirmed the short term rating of [ICRA]A4 (pronounced as ICRA A four) assigned to the Rs. 2.00 crore letter of credit facility of CL. The outlook on the long term rating is 'Stable'.

Detailed Rationale

The revision in the long term rating takes into account the deterioration in financial risk profile of the company marked by de-growth in scale in FY2016 on account of and decline in overall profits in FY2016 and current fiscal, which led to moderation in debt coverage indicators; and increase in working capital intensity of operations on account of elongated receivable cycle with high working capital limit utilisation. The ratings continue to remain constrained by vulnerability of operations to any adverse market conditions for textile sector, which is the key user industry for various dyes and the financial profile of the company which is characterised by a adverse capital structure and moderate coverage indicators. The ratings continue to factor in the vulnerability of profitability to adverse movements in key raw materials, as the sales orders are fixed price based and the company's low bargaining power with customers in a highly competitive industry leading to longer payment cycles.

The ratings, however, continue to favourably factor in the long experience of the company's promoters in the dye industry, low concentration risk on account of diversified product portfolio, and locational advantages in terms of proximity to raw material suppliers. The ratings also consider the company's longstanding business associations with customers and the benefit it derives from the agency agreement with Color Root in terms of expansion of product mix as well as addition of new customers.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Long standing experience of promoters spanning over 25 years in dyes business
- Portfolio of shades and dye types covering entire gamut of reactive dyes suitable for textile industries
- Benefit from agency agreement with Color Root in terms of expansion of product mix as well as addition of new customers

Credit Weakness

- Deterioration in financial risk profile marked by de-growth in scale and decline in profitability which led to moderation in debt coverage indicators
- Increase in working capital intensity owing to elongated receivables period; high working capital limit utilisation
- Exposure of profitability to price fluctuations in key raw materials, as the sales orders are fixed price based
- Significant competition from the local players in certain dye segments and low bargaining power with customers leading to longer payment cycles
- Vulnerable to any adverse market conditions for textile sector, which is the key user industry for various dyes

Detailed description of key rating drivers highlighted above:

Colorant Limited has developed its own process chemistry for various types of simple, bi-functional, poly-functional as well as special reactive dyes - each with suitability for specific end-user applications. CL markets its products under the brand of 'Colron' which it uses as a prefix to all the dyes variants manufactured and marketed by it. It also has an agency agreement with Color Root Tech Private Limited, a major Chinese player for marketing of its fluorine based reactive dyes in India. Although the overall contribution of fluorine based dyes to total sales remains limited, its contribution has increased from Rs. 4.78 crore in FY 2015 to Rs. 10.45 crore in FY 2016 and Rs. 6.15 crore in 7MFY17. Colorant has benefited from exclusive agency agreement with in terms of expansion of product profile as well as opening up of new marketing channels

After witnessing a robust growth in FY 2014, the company witnessed modest growth of 3% in FY 2015 owing to the slowdown and sluggish demand in major export destinations. The weak demand scenario coupled with supply constraints and increased competitive pressures led to de-growth of 28% in FY 2016. The raw material prices have remained highly volatile in the past two years owing to supply constraints with few of the major Chinese suppliers having shut shop due to stricter environmental control norms. Given, the volatility raw material prices, the players who have integrated backward to manufacture H-Acid and Vinyl Sulphone, the dye intermediates are better positioned and can price their product competitively as compared to players who are only into Dyestuff manufacturing.

Going forward, the scale of operations is expected to witness moderate growth; however the profitability is expected to remain vulnerable to volatility in raw material prices. The ability of the company to scale up its operations while improving the profit margins, efficiently manage the working capital requirements and maintain a prudent capital structure would remain some of the key rating sensitivities.

Analytical approach:

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company:

Incorporated in 1999, Colorant Ltd. (CL) is engaged in manufacturing of reactive dyes for textile applications. The company was earlier engaged in trading and commissioned its own manufacturing with a 40 MT/month installed capacity in 2004 from a leased setup at Naroda, Ahmedabad. In 2005, the company shifted its operations to its new premises at Vatva near Ahmedabad and expanded its installed capacity to 90 MT/month. In 2009; the company purchased a nearby plot for addition of capacity of 250 MT/month for carrying out additional blending and packing operations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				March 2017	February 2016	November 2014	September 2013
1	Cash Credit	Long Term	9.00	[ICRA]BB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long Term	0.55	[ICRA]BB-(Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Letter of Credit	Short Term	2.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	11.45%	-	9.00	[ICRA]BB- (Stable)
Term Loan	-	11.85%	Q4 FY 2018	0.55	[ICRA]BB- (Stable)
Letter of Credit	-	-	-	2.00	[ICRA]A4

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About ICRA Limited:

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