Ultramarine & Pigments Ltd

January 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based (Cash Credit)	7.50	7.50	[ICRA]A+ (Stable); Upgraded from [ICRA]A(Stable)
Short term non-fund based	2.25	2.25	[ICRA]A1; Reaffirmed
Long term unallocated	5.25	5.25	[ICRA]A+ (Stable); Upgraded from [ICRA]A(Stable)
Total	**15.00**	**15.00**	

Rating action

ICRA has upgraded the long -term rating to the Rs. 7.50 fund based facility and Rs 5.25 crore unallocated facility of Ultramarine & Pigments Ltd from [ICRA]A (pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus). ICRA has reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the non-fund based bank facilities of Ultramarine & Pigments Ltd. (UPL or the company)[1]. The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade reflects the improvement in financial and operational profile of the company in FY2017 and 6M FY2018, charecterised by improvement in scale of operation, profitability and capital structure. The company's revenue growth in the last two fiscals was driven primarily by increased off-take in surfactant segment on back of capacity addition in recent past. UPL's profitability and debt protection metrics continued to improve in FY2017 and H1 FY2018 primarily due to improved profitability in ITeS segment and focus on high margin products in surfactant and pigment segments.

The ratings continue to take into consideration the experience of the promoters and the company's track record as an established manufacturer of ultramarine blue pigments and a range of surfactants. Further, the ratings also factor in UPL's equity investments in Thirumalai Chemicals Ltd, which provides financial flexibility to the company.

The ratings, however, continue to remain constrained by the company's moderate scale of operations in both of its key business segments – pigments & surfactants. As such, given the high completive intensity in surfactant segment, managing volatility in raw material prices is a key challenge for the company. Further, the company is significantly exposed to product concentration risk in the pigments segments with presence predominantly in a single product line– ultramarine blue. While the company is making efforts to develop new products, successful induction & market development for such products, resulting in meaningful diversification of revenue streams, remains to be seen. These apart, the ratings are also constrained by the project risk arising out of proposed capital expansion. UPL's ability to successfully commission the project within the budgeted time and cost would be a key rating driver in the medium term.

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

Outlook: Stable

The outlook may be revised to 'Positive' if UPL demonstrates substantial growth in scale while sustaining its profitability and capital structure at similar levels. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any higher than expected capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Established presence in Ultramarine Blue pigments industry

UPL commenced its operations in 1961 and is currently one of the largest manufacturers of ultramarine blue pigment in India. Ultramarine blue pigment has diverse application with high-grade pigments used in industries such as plastics, paints, coatings, cosmetics, foods, detergents etc.; lower grade pigments are primarily used for whitewashing and laundry applications. With significant presence in export markets in addition to the established customer base in the domestic market, the segment has limited geographic and customer concentrations risk.

Established presence and long-standing customer relationship in surfactant industry - In 1975, UPL diversified into the manufacturing of surfactants, a key input for detergents. UPL is among the key suppliers of surfactants to detergent manufacturers, including some of the large multinational FMCG players, in South India. The company has been catering to these large FMCG participants over the years and the established relationship has aided in maintaining steady growth in revenues in this segment.

Strong net-worth position and low reliance on external debt- The company maintains a conservative capital structure policy with any capital expenditure being predominantly funded by internal accruals. In addition, with significant cash accruals over the years, the company had a healthy liquidity position with cash & cash equivalents of around Rs. 35 crore as on March 31, 2017. Also, UPL has close to 20% shareholding in Thirumalai Chemicals Ltd, valued around Rs 300 crore as on September 30, 2017. These factors provide comfort on the financial flexibility of the company.

Healthy profitability and strong debt-protection metrics – The company has maintained its operating margins at healthy levels of 15-20% over the past three years. The operating margins further improved in 6M-FY2018 segment backed by favourable pricing situation in the key pigment and surfactant segments. The debt protection metrics have also been healthy given the low reliance on external borrowing.

Credit challenges

Moderate scale of operations - The company has a moderate small scale of operations in both pigment and surfactant segments, resulting in limited operational flexibility. UPL's operation in pigment segment is characterized by limited product diversification and competition with entrenched global players. Similarly, with limited value addition in the surfactant segment, moderate scale of operations and high competitive intensity restricts the pricing flexibility for the company.

Vulnerability of profitability to any adverse fluctuation in raw material prices and forex – UPL's operating margins remain exposed to raw material price fluctuation. Any adverse movement in the price of raw materials, especially in the surfactants segment, could have an adverse impact on the profitability, considering the limited ability to pass on the price hike owing to high competitive intensity. The operations are also exposed to forex-fluctuation risk; however, it is mitigated partly by presence of exports operating as a natural hedge.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Established in 1960, Ultramarine & Pigments has its manufacturing facilities at Ambattur, Chennai and Ranipet in North Arcot, Tamil Nadu. It is one of the major manufacturers of ultramarine blue pigments and surfactants in India. The company also manufactures detergent powder/liquid (under the brand name OOB) and other inorganic pigments in smaller scale. The company also has an ITeS/BPO division with specialisation primarily in content management, publishing, hospital billing services etc. UPL also earns small revenue from its windmill division.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	220.2	255.4
PAT (Rs. crore)	27.4	32.4
OPBDIT/ OI (%)	17.1%	19.6%
RoCE (%)	35.3%	34.8%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest coverage (times)	105.4	200.5
NWC/ OI (%)	19.5%	17.4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Jan 2018	Sep 2017	-	-
1	Fund Based	Long Term	7.50		**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-	-
2	Short term Non Fund Based	Long Term	2.25		**[ICRA]A1**	**[ICRA]A1**	-	-
3	Long Term Unallocated	Long Term	5.25		**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Fund Based	Long Term	NA	NA	NA	7.50	**[ICRA]A+(Stable)**
Short term Non Fund Based	Long Term	NA	NA	NA	2.25	**[IICRA]A1**
Long Term Unallocated	Long Term	NA	NA	NA	5.25	**[ICRA]A+(Stable)**

Source: UPL

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