July 31, 2019

Ultramarine and Pigments Ltd: Short-term rating upgraded to [ICRA]A1+; Long-Term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - fund based	7.50	7.50	[ICRA]A+ (Stable); reaffirmed
Short term non-fund based	2.25	6.00	[ICRA]A1+; upgraded from [ICRA]A1
Long term unallocated	5.25	1.50	[ICRA]A+ (Stable); reaffirmed
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure 1*

Rationale

The upgrade of short-term rating reflects the improvement in the Ultramarine and Pigments Ltd's (UPL) financial risk profile as reflected by strong liquidity position and healthy capital structure as on March 31, 2019 on account of sustained cash accruals in the recent past. The company's cash accrual continues to remain robust on account of improvement in its scale of operation and profitability. The company's revenue growth in the last two fiscals was driven primarily by increased revenue from pigment on account of both volume growth and improved realization. Similarly, its's profitability and debt protection metrics continued to improve in FY2018 and FY2019 primarily due to improved profitability in its pigment segments. Further, 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 strategic 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. 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. Also, given the high completive intensity in surfactant segment, managing volatility in raw material prices is a key challenge for the company. These apart, the ratings are also constrained by the project risk arising out of on-going capital expansion. UPL's ability to successfully commission the project and increase its revenue from surfactant segment, amidst intense competition, remains to be seen.

Outlook: Stable

The outlook may be revised to 'Positive' if UPL is able to improve its scale of operation and product diversification in both pigment and surfactant segment, and which in-turn would result in improved and stable cash accruals, going forward. The outlook may be revised to 'Negative' if the company's profitability deteriorates on account of elevated competition and raw material price fluctuation resulting in lower than expected cash accruals, or if any higher than expected capital expenditure, any inorganic expansion or stretch in the working capital cycle, weakens UPL's 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 - 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. 74-crore as on March 31, 2019. In addition, the company has bank fund based facilities totalling to Rs 17.5 crore, which remain largely unutilized. These factors provide comfort on the financial flexibility of the company. Also, UPL has close to 20% strategic shareholding in Thirumalai Chemicals Ltd, valued around Rs 180 crore as on March 31, 2019.

Healthy profitability and strong debt-protection metrics – The company has maintained its operating margins at healthy levels of over 20% over the past two years. The operating margins further improved in FY2018 and FY2019 segment backed by favourable realization in pigment segments. The debt protection metrics have also been healthy given the low reliance on external borrowing.

Credit challenges

Moderate scale of operations and high product concentration - 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 low product diversification and competition with entrenched global players. The company's revenue in this segment is primarily dependent on ultramarine blue pigments with limited revenue derived from other pigments.

Similarly, low value addition in the surfactant segment, moderate scale of operations and high competitive intensity restricts the pricing flexibility for the company. Its end use product - detergents –is a consumer commodity with low demand growth. Hence the company's scope for improving scale of operations and profitability remain limited, despite increasing preference its products.

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 and forex hedging.

Liquidity position

UPL's liquidity position is expected to remain robust due to its healthy liquid asset position (around Rs 74 crore as on March 31, 2019) and available undrawn bank borrowing to the extent of Rs 17.5 crore as on March 31, 2019. With requirement of around Rs 50 crore for ongoing capex in FY2020 and FY2021, the company's liquidity position is expected to remain robust on account of likely healthy cash accruals as well. The company's capital structure has been highly conservative with the company being debt free in the recent past.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company.

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. It has a capacity 6,000 MTPA in pigments segment and 2,8000 MTPA in surfactant segment (being expanded to around 53,000 MTPA).

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	277.3	306.9
PAT (Rs. crore)	43.6	56.5
OPBDIT/ OI (%)	22%	24%
RoCE (%)	19%	18%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest Coverage (times)	58.2	119.1

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating July 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 -	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Oct 2016
1	Fund Based	Long Term	7.50		[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Short term Non Fund Based	Short Term	6.00		[ICRA]A1+	-	[ICRA]A1	[ICRA]A1
3	Long Term Unallocated	Long Term	1.50		[ICRA]A+ (Stable)	-	[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 Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund Based	NA	NA	NA	7.50	[ICRA]A+(Stable)
-	Short term Non Fund Based	NA	NA	NA	6.00	[IICRA]A1+
-	Long Term Unallocated	NA	NA	NA	1.50	[ICRA]A+(Stable)

Source: UPL

ANALYST CONTACTS

Ravichandran K
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Rathina Pradeep R
+91 444297 4307
rathina.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents