AsahiSongwon®

Ref: ASCL/SEC/2024-25/3

April 6, 2024

1. To,
The General Manager
Department of Corporate Services
BSE Limited
1st Floor, New Trading Ring
Rotunda Building, P. J. Tower
Dalal Street, Fort
Mumbai – 400 001
BSE Scrip Code: 532853

2. To,
The General Manager (Listing)
National Stock Exchange of India Ltd
5th Floor, Exchange Plaza
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (East)
Mumbai – 400 051
NSE Trading Symbol: ASAHISONG

SUB: INTIMATION OF THE REVIEW OF CARE RATINGS ON THE BANK FACILITIES OF THE COMPANY

REF: REGULATION 30 (6) OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Dear Sir/Madam,

We wish to inform you that the M/s. CARE Ratings Limited (CARE) has reviewed the ratings on the bank facilities of the Company and revised their rating for the Long-Term Bank Facilities, Long-Term/Short-Term Bank Facilities and Short-Term Bank Facilities, a copy thereof is attached herewith. The ratings are as follows:

Facilities	Current Rating	Revised Rating
Long-Term Bank Facilities	CARE A; Stable	CARE A-; Stable
Long-Term/Short-Term Bank Facilities	CARE A; Stable/CARE A1	CARE A-; Stable/CARE A2+
Short-Term Bank Facilities	CARE A1	CARE A2+

Kindly inform the members accordingly.

Thanking you,

Yours faithfully,
For, **ASAHI SONGWON COLORS LIMITED**

JOSEPH SAJI VARGHESE

Digitally signed by JOSEPH SAJI VARGHESE
Date: 2024.04.06 11:26:09 +05'30'

SAJI JOSEPH
Company Secretary & Compliance Officer

Encl: As above

Asahi Songwon Colors Limited

April 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	23.60 (Reduced from 37.98)	CARE A-; Stable	Revised from CARE A; Stable
Long-term / Short-term bank facilities	131.00	CARE A-; Stable / CARE A2+	Revised from CARE A; Stable / CARE A1
Short-term bank facilities	19.00 (Reduced from 34.00)	CARE A2+	Revised from CARE A1

Details of facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Asahi Songwon Colors Limited (ASCL) factors the continued weakening of its debt coverage indicators owing to continued moderation in its operating profitability in FY23 (refers to the period April 1 to March 31) and 9MFY24 (refers to the period April 1 to December 31) on the back of adverse industry scenario in ASCL's standalone pigment business as well as high losses incurred in its Azo pigment business under its 51% Joint Venture (JV) caused by delay in stabilisation of the plant as against CARE Ratings Limited's (CARE Ratings') earlier expectations. The ratings take cognisance of monetisation of its non-core asset (land) in 9MFY24 for ₹47 crore which has been utilised to shore up its liquidity which supports its ratings in the wake of weak operational performance.

The ratings of ASCL continue to derive strength from established track record of ASCL and experience of its management in the pigment industry along with its long-standing relationship with some of the world's leading printing ink manufacturing companies as well as supply arrangements in place for one of its key raw materials (Phthalic Anhydride). The ratings also factor the moderate diversification in its customer base through addition of new customers during the past few years and its adequate liquidity.

The ratings however continue to be constrained by its moderate scale of operations, susceptibility of its profitability to volatility in raw material prices and foreign exchange fluctuation risk. The ratings are further constrained by delay in realization of envisaged returns from its Azo pigments plant which has coincided with downturn in industry thus adversely impacted its Return on Capital Employed (ROCE) and stabilization risk associated with recently concluded debt funded capex for backward integration of existing API business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant increase in scale of operations along-with revenue diversification
- Improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to around 12% along with improvement in its Total Debt/PBILDT to below 2x on a sustained basis
- Improvement in ROCE above 12% on sustained basis

Negative factors

- PBILDT margin and ROCE below 8% on a sustained basis
- Total debt/PBILDT beyond 4 times on a sustained basis
- Delay in stabilization of its new project for backward integration of existing API intermediates and further delay in stabilization of azo pigments plant

Analytical approach: Consolidated

ASCL's credit profile has been analysed on a consolidated basis owing to strong operational and financial linkages of ASCL with its 51:49 JV company viz. Asahi Tennants Color Private Limited (ATCPL). Further, in FY22 and FY23, Atlas Lifesciences Private Limited (ALPL) has become a wholly ownes subsidiary of ASCL and a new wholly owned subsidiary named Atlas Lifesciences (India) Pvt. Ltd. (ALIPL) has been incorporated. List of entities getting consolidated in ASCL is provided in **Annexure-6**.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

CARE Ratings believes that ASCL will continue to benefit from its established position in the pigment industry along-with its experienced management. Going forward, the expected higher cash flow generation from its Azo pigment business under its JV and recently concluded capex related to the backward integration facility in ALIPL should improve its return indicators.

Detailed description of the key rating drivers

Key strengths

Experienced management with an eminent board

ASCL and its promoters are engaged in the business of manufacturing pigments for nearly three decades. The company is one of the leading manufacturers of CPC Blue Crude in India and has also set-up facility for manufacturing Beta Blue as well as Alpha Blue pigments as a part of forward integration. ASCL's Chairperson, Mrs. Paru M. Jaykrishna, is a noted industrialist and a former President of Gujarat Chamber of Commerce & Industries (GCCI). Presently, the business operations of ASCL are being managed by Mr. Gokul Jaykrishna (CEO & Joint MD, ASCL) who is well qualified and has been engaged with ASCL since 1996. His son, Mr. Arjun Jaykrishna, also joined ASCL as an executive director from October 2019. Further, ASCL has several eminent personalities on its board.

Established track record of ASCL in the pigment industry

ASCL is one of the leading manufacturers of CPC Blue Crude in India. Being an export-oriented company, export sales constituted around 62% of ASCL's standalone TOI in FY23. However, over the years, company has also increased its focus on the domestic market as reflected from gradual increase in contribution of domestic sales from 20% of its TOI during FY16 to ~40% currently. Furthermore, as a part of forward integration, ASCL has set up a facility to manufacture Alpha Blue and Beta Blue, which are value added products manufactured from CPC Blue Crude. The capacity utilization of its blue pigment business remained weak in FY23 and 9MFY24.

Further, its 2,400 MTPA capacity for azo pigments is equally divided between yellow and red pigments. As indicated by company's management, the capacity utilization has improved from January 2024 with the capacity for yellow pigment being optimally utilized. ATCPL is expected to achieve PBILDT break even by June 2024 as against earlier envisaged timeline of March 2023. Further, entire sales of ATPCL are currently from domestic market only and there is not much off-take by its JV partner, which was earlier envisaged, primarily due to the slowdown in its textile business.

Strong client profile along with gradual diversification

ASCL supplies pigments to some of the world's largest colorant companies like DIC Corporation (Japan), Sun Chemical Corporation (USA; part of DIC group), Clariant Chemicals India Limited, BASF SA (Germany) etc. and it has a strong and long-standing business relationship with its key clients. Income from these key clients remained in the range of 70%-80% till FY16. However, ASCL has gradually added some new customers in both domestic and export markets over past six years ended March 31, 2023 thus leading to some moderation in its client concentration. This has also been reflected from reduction in the share of income from its key clients to around 46% in 9MFY24. While offset printing ink still continues to be the major end-use segment for pigments manufactured by ASCL, it has gradually started catering to the pigment requirements of packaging ink and plastic & coating manufacturers, thereby expected to have relatively more stability to its business operations. Also, with the acquisition of ALPL, diversification of its business profile has improved with addition of pharma API business under ASCL. Going forward, its business profile is expected to further diversify with recent completion of its planned capex in ALIPL which is mainly towards backward integration to its pharma API business.

Liquidity: Adequate

The company's liquidity witnessed moderation in FY23 owing to cash losses reported by the company on the back of significant moderation in operating profitability leading to increased reliance on working capital limits to meet its debt repayment obligations. Also, company registered positive cash flow from operations of ₹11.36 crore in FY23 which aided its liquidity position.

In 9MFY24, ASCL sold its non-core land for ₹47 crore at a gain of around ₹26 crore which has aided its liquidity on the back of continued weak operational performance. The land sale proceeds were used to meet its working capital requirements and towards funding of its capex in ALIPL.

Despite moderation in its overall gearing to 0.77x in FY23 led by the debt-funded acquisition of ALPL and debt funded capex under its wholly owned subsidiary ALIPL, ASCL has sufficient gearing headroom, to raise additional debt for its capex/working capital requirement. Average utilization of fund based working capital limits stood at around 68% during past 12 months ended January 2024 reflecting that its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. Its expected improved cash accruals should adequately cover the term debt repayment obligations from FY25 onwards.

Key weaknesses

Significant moderation in debt coverage indicators

The consolidated debt level of ASCL increased from ₹89.31 crore as on March 31, 2022 to ₹179.68 crore as on March 31, 2023 owing to additional debt availment for its API capex at Chhatral and debt funded acquisition of its controlling stake in ALPL in April 2022.

As against rise in its total debt, its operating profitability was severely impacted in FY23 and 9MFY24 leading to moderation in its debt coverage indicators. Its Total debt/ PBILDT moderated from 2.45x in FY22 to 19.89x in FY23 owing to significant moderation in profitability due to weak industry scenario. The debt levels largely continued to remain at similar levels at ₹176.68 crore as on Dec.31, 2023 in-spite of sale of land of ₹47 crore in 9MFY24 and owing to continued moderation in PBILDT in current fiscal year, the total debt/ PBILDT is expected to remain significantly high for FY24. CARE Ratings expects Total debt/PBILDT to improve to around 4x times by end-FY25.

Delay in stabilization of concluded capex in JV to manufacture Azo pigments impacting its return indicators

In order to diversify its revenue profile and grow its scale of operations, ASCL forayed into the manufacturing of a range of Azo pigments under Asahi Tennants Color Private Limited (ATCPL) which was set-up as a 51:49 JV between ASCL and Tennants Textile Colours Limited, London (part of TTC group). The plant has been set up with an initial installed capacity of 2,400 MTPA at a total cost of ₹95 crore which started commercial operations towards end of FY21. Currently, the JV is manufacturing around 12 to 13 grades of yellow and red pigments and going forward the product basket is proposed to be enhanced to include orange pigments depending on market scenario. Further, TTC had committed minimum off-take of 20% of installed capacity from the JV. However, the operations of the JV, even after two years of operations, are still at a nascent stage; consequently, the JV reported a TOI of ₹41.44 crore and incurred a net loss of ₹14.20 crore in FY23 and net loss stood at ₹6.37 crore in 9MFY24 with TOI of around ₹40 crore whereby the losses remained significantly higher than earlier expectations. Owing to delay in stabilization and ramp up of Azo pigments plant combined with the downturn in the industry, the ROCE of the company declined from 18.19% in FY21 to 6.97% in FY22 and it turned negative in FY23. Further, competitive pressure exerted by the established players in the industry would be one of the key rating monitorable.

Inherent risk associated with stabilization of recently concluded debt-funded capex in ALIPL

ASCL under its wholly owned subsidiary i.e., ALIPL has implemented a greenfield project at a land parcel at Chhatral, Ahmedabad for backward integration of its existing API intermediates business alongwith introduction of newer high-value products. The total cost of the project was envisaged at around ₹65 crore to be funded through a term loan of ₹55 crore, balance through internal accruals. However, actual capex cost stood at around ₹77 crore and capex was completed by December 2023 as against earlier envisaged timeline of October 2023. The company has plans to initially focus on semi regulated/ low regulated markets.

No prior experience of ASCL in the regulated Pharma API business can also pose a challenge; albeit it is expected to benefit from continuation of the erstwhile promoter of ALPL as a Joint MD till FY25 as well as the experienced employees of ALPL. Timely stabilization of the project along-with ramp-up of operations and earning envisaged returns from the same would be critical to improve ASCL's return on capital employed.

Relatively moderate scale of operations

ASCL is a relatively medium sized player in the domestic pigment industry with its presence predominantly in Phthalocyanine pigments with focus on CPC Blue Crude and its derivatives in comparison to few other large and diversified players which offer wide spectrum of organic pigments - Azo pigments, Pthalocyanine pigments and High-performance pigments. Further, the scale of operations of ASCL is relatively small in comparison to the global pigment industry and moderate in comparison to domestic pigment industry which restricts its bargaining power against its much larger customers. In order to diversify its business operations and grow its scale of operations, the company has entered into API intermediates business and also undertook capex for its backward integration which along with stabilization and ramp-up of the Azo pigments plant is expected to gradually improve its scale of operations.

Going forward, ability of the company to expand its product line and increase its scale of operations to a significant extent while earning healthy profitability shall remain key rating sensitivity.

Continued moderation in operating profitability which is susceptible to volatility in raw material prices and foreign exchange rate

Majority of the raw materials required by ASCL are derivatives of crude oil and hence, their prices are highly volatile and fluctuate in accordance with changes in international crude oil prices. The risk is mitigated to some extent through presence of supply arrangement for one of its key raw materials; however, ASCL's profitability is still susceptible to sudden changes in prices of raw material as there would be a lag between change in raw material price and reset of finished goods price. In FY23 and 9MFY24, PBILDT margin of ASCL (consolidated) moderated on account of inventory losses associate with high-cost inventory, low realizations on the back of sluggish demand, excessive supply in the domestic market upon imposition of anti-dumping duty on pigments by China coupled with weak performance of its JV (ATCPL) and subsidiary ALSPL. However, there has been improvement in its performance from Q3FY24 onwards which company management is expecting to further improve substantially going forward. Being an export-oriented company, ASCL derives part of its revenue from exports thus exposing it to currency fluctuation risk also. However, ASCL has a natural hedge to the extent of import of raw materials. Further, as per the company management, ASCL has in place a well-structured risk management system for monitoring and mitigation of such forex risk.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Dyes And Pigments

Incorporated in December 1990, ASCL is promoted by the Jaykrishna family based out of Ahmedabad (Gujarat). ASCL is mainly engaged in manufacturing and sales of Copper Phthalocyanine (CPC) pigments viz. CPC Blue Crude, Beta Blue and Alpha Blue. As on December 31, 2022, ASCL had an installed capacity of 13,200 Metric Tons Per Annum (MTPA) for manufacturing Blue Pigment (CPC Blue Crude, Beta Blue and Alpha Blue) at its Padra (Vadodara) plant (ISO 9001:2008 and ISO 14001:2004 certified). Beta Blue and Alpha Blue manufactured by ASCL are value-added products and part of its CPC Blue Crude is consumed captively for manufacturing of the same. ASCL has long-standing relationship (technical collaboration/equity participation/sourcing arrangement) with some of the world's largest colorant companies. Under its JV/subsidiary, ASCL is also engaged in manufacturing of Azo pigments and API intermediates/bulk drugs.

Brief Financials- Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	415.34	508.30	300.27
PBILDT	36.48	9.03	9.48
PAT / (Net losses)	14.65	-18.47	14.73
Overall gearing (times)	0.32	0.77	NA
Interest coverage (times)	7.72	0.64	1.07

A: Audited; UA:Unaudited; NA: Not available; Classified as per CARE Ratings' Standards,
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Please refer to Annexure-2

Covenants of rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	April 2027	23.60	CARE A-; Stable
Fund-based - LT/ ST-CC/Packing credit		-	-	-	131.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	19.00	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	23.60	CARE A-; Stable	-	1)CARE A; Stable (14-Mar-23) 2)CARE A+; Stable (26-Apr-22)	1)CARE AA-; Stable (10-Nov-21)	1)CARE AA-; Stable (18-Nov-20)
2	Fund-based - LT/ ST-CC/Packing credit	LT/ST	131.00	CARE A-; Stable / CARE A2+	-	1)CARE A; Stable / CARE A1 (14-Mar-23) 2)CARE A+; Stable / CARE A1+ (26-Apr-22)	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)	1)CARE AA-; Stable / CARE A1+ (18-Nov-20)
3	Non-fund-based - ST-BG/LC	ST	19.00	CARE A2+	-	1)CARE A1 (14-Mar-23) 2)CARE A1+ (26-Apr-22)	1)CARE A1+ (10-Nov-21)	1)CARE A1+ (18-Nov-20)
4	Fund-based - ST-SLC-WC	ST	-	-	-	-	1)Withdrawn (10-Nov-21)	1)CARE A1+ (18-Nov-20)
5	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (12-Nov-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various instruments rated:

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure 6: List of all entities consolidated

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Asahi Tennants Color Private Limited	Full	Subsidiary
2.	Atlas Life Sciences Private Limited	Full	Subsidiary
3.	Atlas Life Sciences (India) Private Limited	Full	Subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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