AsahiSongwon®

Ref: ASCL/SEC/2022-23/11

April 28, 2022

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 reaffirmed their rating for Short-Term Bank Facilities. The ratings are as follows:

Facilities	Current Rating	Revised Rating
Long-Term Bank Facilities	CARE AA-; Stable (Double A Minus; Outlook: Stable)	CARE A+; Stable (Single A Plus; Outlook: Stable)
Long-Term/Short-Term Bank Facilities	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)
Short-Term Bank Facilities	CARE A1+ (A One Plus)	Reaffirmed

Kindly inform the members accordingly.

Thanking you,

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

SAJI JOSEPH
Company Secretary & Compliance Officer

Annexure-2

Press Release

Asahi Songwon Colors Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	11.25	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Long Term / Short Term Bank Facilities	86.00	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Revised from CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**
Short Term Bank Facilities	34.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**131.25 (Rupees One Hundred Thirty-One Crore and Twenty-Five Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Asahi Songwon Colors Limited (ASCL) factors moderation in its leverage and debt coverage indicators on the back of significant increase in debt arising from funding of its recent acquisition of 78% equity stake in Atlas Life Sciences Private Limited (Atlas) and the envisaged increase in debt to fund its planned capex in Atlas, along with moderation in ASCL's profitability during 9MFY22 (FY refers to the period April 1 to March 31) on the back of cost side pressures and delay in stabilization of operations of its Azo pigment business under its 51% Joint Venture (JV) as against CARE Ratings' earlier expectations.

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 past few years and its adequate liquidity.

The long-term rating further continues to be tempered by its moderate scale of operations with product concentration, susceptibility of its profitability to volatility in raw material prices and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action / upgrade):

- Significant increase in scale of operations along-with revenue diversification
- Improvement in PBILDT margin to around 18% along with improvement in its Total Debt/PBILDT to below 1.5x on a sustained basis
- Improvement in ROCE to above 20% along with maintaining overall gearing below 0.50x on a sustained basis

Negative Factors – Factors that could lead to negative rating action / downgrade):

- PBILDT margin below 10% on a sustained basis
- Deterioration in overall gearing beyond 1.00 times on a sustained basis
- Deterioration in Total debt/PBILDT beyond 3.50 times on a sustained basis
- Any prolonged delay in ramp-up and stabilization of its new project for manufacturing of Azo pigments

Acquisition of controlling stake in Atlas

On April 18, 2022, ASCL has announced that it has executed a Share Purchase Agreement with Atlas and certain identified promoters of Atlas for acquisition of 100% equity stake in Atlas in three tranches. Also, it announced completion of acquisition of shares under first tranche i.e. 78% stake in Atlas on April 18, 2022 for a consideration of Rs.48 crore while balance stake is planned to be acquired over a period of time till FY25. A greenfield project entailing a capex of around

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

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CIN-L67190MH1993PLC071691

Rs.44 crore, to be funded through a combination of debt and internal accruals, is planned to be undertaken in Atlas from July 2022 onwards.
Incorporated in 2004, Atlas is engaged in manufacturing of active pharmaceutical ingredient (API) intermediates and bulk drugs at its manufacturing facility located at Odhav, Ahmedabad which is WHO-GMP compliant. Atlas manufactures API intermediates in various therapeutic segments viz., Anti-convulsant, Anti-psychotic and Anti-diabetic. Key products include pregabalin, R-compound, phenylephrine, levosulpiride, amisulpride and gliclazide. As per its FY22 provisional results, Atlas earned total operating income (TOI) of Rs.119.23 crore with PBILDT of Rs.8.97 crore and PAT of Rs.4.34 crore. It had total outstanding debt of around Rs.20 crore as on March 31, 2022.

Detailed description of the key rating drivers

Key Rating 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 59% of ASCL's TOI during FY21. 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 41% of TOI during FY21. Also, as a part of forward integration, ASCL has set up facility to manufacture Alpha Blue and Beta Blue, which are value added products manufactured from CPC Blue Crude. The capacity utilization of CPC Blue Crude continued to remain healthy during FY21 and 9MFY22. The capacity utilization of Beta Blue has largely remained stable whereas capacity utilization of Alpha Blue improved in FY21 and 9MFY22 post teething issues encountered in its stabilization for a prolonged period.

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 five years ended March 31, 2021 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 52% during FY21. 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 lending relatively more stability to its business operations.

Liquidity: Adequate

ASCL's liquidity is marked by cash accruals of around Rs.20 crore in 9MFY22 against moderate term debt repayment obligations. Despite moderation in its overall gearing arising from the acquisition of Atlas and planned capex under it, ASCL has sufficient gearing headroom, to raise additional debt for its capex/working capital requirement. Its fund based working capital limits post completion of acquisition of 78% equity stake in Atlas stood utilized to the extent of around 60% in April 2022 reflecting that its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Moderation in leverage and debt coverage indicators upon significant increase in debt arising from the acquisition of controlling stake in Atlas; albeit expected to remain at adequate level

With acquisition of 78% equity stake in Atlas in April 2022, there is significant increase in consolidated debt level of ASCL arising from addition of debt of Atlas and funding of acquisition consideration by way of debt. ASCL's Total debt / PBILDT which stood at around 1 time as on March 31, 2021 is likely to reach near 3 times in the short term as per CARE Ratings' expectations, leading to moderation in its leverage and debt coverage indicators on a consolidated basis.

Inherent project risks associated with its concluded capex in JV to manufacture Azo pigments and planned capex in Atlas

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). ATCPL has set up a plant for manufacturing a range of Azo pigments at Dahej (Gujarat) with an initial installed capacity of 2,400 MTPA at a total cost of Rs.95 crore which started commercial operations towards end FY21. Initially, the JV has started manufacturing 7 grades of Azo pigments and going forward the product basket is proposed to be enhanced to 15 grades of yellow, red and orange pigments depending on market scenario. Further, TTC has committed minimum off-take of 20% of installed capacity from the JV. However, the operations of the JV are currently at a nascent stage as its products are under approval stage with its key export and domestic customers; consequently, the JV reported a meagre TOI of Rs.4.52 crore and incurred a net loss of Rs.6.71 crore in 9MFY22 whereby the losses remained higher than earlier expectation. Also, competitive pressure exerted by the established players in the industry would be one of the key rating monitorable.
Atlas also has a land parcel at Chhatral, Ahmedabad wherein it has planned to implement a greenfield project with an aim to backward integrate its existing products and introduce newer high-value products. The total cost of the project is envisaged at around Rs.44 crore which is planned to be funded in a debt-equity ratio of around 65:35. The company has plans to initially focus on semi regulated/ low regulated markets. The project implementation is likely to start by July-2022 and is likely to be completed over a period of around 12 months. 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 Atlas as a Joint MD for around 2 years as well as the experienced employees of Atlas.
Timely stabilization of the various projects along-with ramp-up of operations and earning envisaged returns from the same would be critical to improve ASCL's return on capital employed.

Product concentration resulting into moderate scale of operations
ASCL is a relatively medium sized player in the domestic pigment industry with its presence in only 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. Going forward, ability of the company to expand its existing product line and increase its scale of operations to a significant extent shall remain key rating sensitivity.

Susceptibility of profitability 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. During 9MFY22, PBILDT margin of ASCL (Consolidated) moderated to 9.90% upon sustained rise in cost of its raw materials, increase in coal and freight costs, along with discontinuation of 2% export incentives coupled with weak performance of its JV (ATCPL).
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.

Analytical approach: Consolidated as there are strong managerial, operational and financial linkages of ASCL with its 51:49 JV company viz. ATCPL. Also, from April 2022, Atlas has become 78% subsidiary of ASCL. List of entities getting consolidated in ASCL is provided in **Annexure-5**.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology: Consolidation
Rating Methodology-Manufacturing Companies
Financial ratios-Non- Financial Sector

About the Company
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 March 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 of ASCL – Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov)
TOI	283.68	283.12	292.29
PBILDT	34.70	49.90	28.95
PAT	22.83	31.95	11.37
Overall gearing (times)	0.11	0.19	NA
Interest coverage (times)	9.65	25.70	8.72

A: Audited; Prov.: Provisional; NA: Not available; Financials classified as per CARE Ratings Limited Standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept. 2023	11.25	CARE A+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	86.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	34.00	CARE A1+

Annexure-2: Rating History (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	11.25	CARE A+; Stable	-	1)CARE AA-; Stable (10-Nov-21)	1)CARE AA-; Stable (18-Nov-20)	1)CARE AA-; Stable (25-Oct-19) 2)CARE AA-; Stable (04-Apr-19)
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	86.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)	1)CARE AA-; Stable / CARE A1+ (18-Nov-20)	1)CARE AA-; Stable / CARE A1+ (25-Oct-19) 2)CARE AA-; Stable / CARE A1+

								(04-Apr-19)
3	Non-fund-based - ST-BG/LC	ST	34.00	CARE A1+	-	1)CARE A1+ (10-Nov-21)	1)CARE A1+ (18-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)
4	Fund-based - ST-SLC-WC	ST	-	-	-	1)Withdrawn (10-Nov-21)	1)CARE A1+ (18-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)
5	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (12-Nov-20)	1)CARE A1+ (25-Oct-19) 2)CARE A1+ (04-Apr-19)

* Long Term / Short Term

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of 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-4: Bank Lender Details for this Company

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

Annexure-5: List of entities getting consolidated in ASCL as on April 18, 2022

Sr. No.	Name of the company	% holding as on April 18, 2022
1.	Asahi Tennants Color Private Limited	51
2.	Atlas Life Sciences Private Limited	78

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**