

## Organic Coatings Limited

June 20, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	9.01	<b>CARE B; Stable</b> <b>(Single B; Outlook: Stable)</b>	<b>Assigned</b>
Short term Bank Facilities	0.50	<b>CARE A4 (A Four)</b>	<b>Assigned</b>
Long/short term Bank Facilities	0.74	<b>CARE B; Stable/ CARE A4</b> <b>(Single B; Outlook: Stable/ A Four)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>10.25</b> <b>(Rs. Ten Crore Twenty Five Lakh Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The ratings assigned to the bank facilities of Organic Coatings Limited (OCL) are constrained by moderate scale of operations coupled with low profit margins, weak debt coverage indicators, moderately working capital intensive nature of operations, weak liquidity position, susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.*

*The ratings however, derive strength from long track record coupled with experienced promoters in the business and moderate capital structure.*

*Ability of OCL to increase its scale of operations while improving its profitability amidst intense competition while maintaining its capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.*

### Detailed description of Key rating drivers

#### Key Rating Weaknesses

##### **Moderate scale of operation coupled with low profit margins**

Total operating income remained of the company remained moderate during past five years ended FY19. Total operating income (TOI) of the company declined to Rs. 35.82 crore in FY19 vis-à-vis Rs. 37.28 crore in FY18 due to decrease in order execution in FY19. Despite more than five decades of operations of the company, the tangible net worth remained small at Rs. 7.22 crore as on March 31, 2019 (vis-à-vis Rs. 6.39 crore as on March 31, 2018) due to low capitalization during past owing to low profitability. Moderate scale of operation and low net worth base limits its financial flexibility to meet any exigency.

The operating profit margins of company have been low (in the range of 3.93% to 8.11% during FY15-FY19) from the past five years ended FY19 due to intense competition. Further it declined to 4.00% in FY19 from 5.62% in FY18 mainly on account of decline in prices of products to sustain in the competitive scenario. Further company reported net losses of Rs. 1.05 crore in FY19 vis-à-vis net profit of Rs. 0.03 crore in FY18 on account of decline operating profit in FY19 and high interest and depreciation expense.

##### **Weak debt coverage indicators**

The debt coverage indicators stood weak with deterioration in total debt to gross cash accruals to 26.94x in FY19 vis-à-vis 5.40x in FY18 due to decline in gross cash accruals and increase in debt level. Further interest coverage ratio also deteriorated to 1.27x in FY19 from 1.98x in FY18 due to decline in profitability and marginal increase in interest cost in FY19.

##### **Moderately working capital intensive nature of operations**

Operations of OCL are moderately working capital intensive mainly on account of funds being blocked in receivables (avg. collection period is 85 days) as company offers credit period of around three months to its clients to sustain in the competitive market scenario and inventory (average inventory period is 48 days) as company has to maintain inventory to execute the orders in timely manner. Further on the other hand it makes payment in four to five months to its suppliers led to higher credit period of around 141 days. All taken collectively, operations of the company remains moderately working capital intensive leading to high utilization of working capital limit with 100% average utilization of its working capital limit (Rs. 4 crore) for past twelve months ended May 2019. Company also availed working capital term loan to fund its working capital requirement.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

### **Weak liquidity position**

Liquidity position stood weak with current ratio of 0.97x and quick ratio of 0.67x as on March 31, 2019. Further free cash and bank balance remained low at Rs.0.83 crore as on March 31, 2019 vis-à-vis Rs. 0.72 crore as on March 31, 2018.

### **Susceptibility of profit margins due to volatile material prices**

The raw material is the major cost driver (constituting about 80% of total cost of sales in FY19) and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of the raw material which is major cost component and volatile in nature. Accordingly, the profitability margins of the company are susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability.

### **Presence in competitive and fragmented industry**

Company operates in a highly competitive and fragmented chemical industry. The company witnesses intense competition from both the other organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

### **Key rating Strengths**

#### **Long track record coupled with experienced promoters in the business**

OCL possesses an established track record of more than five decades in the industry and is promoted by managing director Mr. Rajnikant Shah, Mr. Ajay Shah and Mr. Abhay Shah who have rich experience in the industry. Company has established long term relationship with various distributors and suppliers across India. All the promoters are assisted by experienced management team in the field of accounts, sales and production to carry out day-to-day operations.

#### **Moderate capital structure**

Capital structure of the company remained moderate and in the range of 1.15x to 1.48x during past five years ending FY19 Further it marginally improved with improvement in overall gearing of the company to 1.15x as on March 31, 2019 vis-à-vis 1.17x March 31, 2018 on account of increase in net worth base due to accretion of profit to reserves. However total debt increased in FY19 due to additional working capital term loan availed by company to fund its working capital requirement.

**Analytical approach:** Standalone

#### **Applicable Criteria:**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

#### **About the Company**

Organic Coatings Limited (OCL) was incorporated in 1965, by Director, Mr. Rajnikant Shah who has more than five decades of experience in the industry. OCL got listed on Bombay Stock Exchange on October 12, 1995. OCL is engaged in the manufacturing of printing ink. Company has factory located in Baroda, Gujarat with an installed capacity of 800 metric tons of ink per month. It procures majority of its raw material from domestic market and sales its products across India through distributor's network and exports ~10% of the products to Uganda, Kenya and Gulf countries.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	37.28	35.82
PBILDT	2.09	1.43
PAT	0.03	-1.05
Overall gearing (times)	1.17	1.15
Interest coverage (times)	1.98	1.27

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not applicable

**Rating History (Last three years):** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working capital Term Loan	-	-	-	1.44	CARE B; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	1.82	CARE B; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE B; Stable
Non-fund-based - ST-Letter of credit	-	-	-	0.50	CARE A4
Non-fund-based - LT-Bank Guarantees	-	-	-	1.75	CARE B; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	0.74	CARE B; Stable / CARE A4

**Annexure-2: Rating History of 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working capital Term Loan	LT	1.44	CARE B; Stable	-	-	-	-
2.	Fund-based - LT-Working capital Term Loan	LT	1.82	CARE B; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	4.00	CARE B; Stable	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A4	-	-	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	1.75	CARE B; Stable	-	-	-	-
6.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	0.74	CARE B; Stable / CARE A4	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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