

## Organic Coatings Limited

August 02, 2022

### Ratings:

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	11.69 (Reduced from 12.14)	CARE B-; Stable (Single B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.50	CARE A4 (A Four)	Reaffirmed
<b>Total Bank Facilities</b>	<b>12.19</b> <b>(₹ Twelve Crore and Nineteen Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Organic Coatings Limited (OCL) continues to be tempered by small scale of operation albeit growth in revenues coupled with dip in operating profit margins and cash losses incurred in FY22 (refers to the period from April 01 to March 31) as a result of challenging market conditions and elevated business risks. This has resulted into highly leveraged capital structure and weak debt coverage indicators. Furthermore, the ratings are tempered by working capital intensive nature of operations along with stretched liquidity position and susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.

The ratings, however, continue to derive strength from long track record coupled with experienced promoters in the business.

#### Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.50 crore on a sustained basis
- Improvement in PBILDT margin to 7% and achieving of cash profit on a sustained basis
- Improvement in the capital structure to 2x on a sustained basis
- Improvement in debt coverage indicators with interest coverage ratio around 2x and total debt to gross cash accruals reaching below 7x on a sustained basis
- Improvement in the liquidity position with current ratio exceeding 1.5x and average utilization of working capital bank borrowings around 80% on a sustained basis

#### Negative Factors

- Elongation in the operating cycle beyond 120 days resulting into poor liquidity
- Delays in debt servicing/repayment

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Small scale of operation with cash losses in FY22:** The total operating income (TOI) increased by around 5.30% and stood at Rs. 22.18 crore in FY22 as compared to Rs. 14.10 crores in FY21 mainly due to improvement in pace of business post the pandemic. However, the operating profit margin declined by 121 bps and stood at 2.58% in FY22 as compared to 3.79% in FY21 owing to increase in raw material cost which resulted in cash loss of Rs. 0.93 crores in FY22 as compared to cash loss of Rs. 0.85 crores in FY21 due to increase in interest expense. Nevertheless, it is to be noted OCL has reported profits at the operating level of Rs. 0.57 crores in FY22 as compared to Rs. 0.53 crores in FY21. OCL reported net loss of Rs.2 crores in FY22 as compared to net loss of Rs.2.15 crores in FY21. Despite more than five decades of operation of the company, the tangible net worth eroded and remained small at 0.75 crores in FY22 as compared to Rs.2.74 crore as on March 31, 2021, due to low capitalization along with net loss incurred during past four years.

**Leveraged capital structure and weak debt coverage indicators:** The capital structure of OCL has deteriorated and stood highly leveraged with overall gearing of the company stood at 16.28 times in FY22 as compared to 4.60 times as on FY22 on account of erosion in net worth due to accumulated losses over the years.

Further, owing to cash losses incurred in FY22 coupled with decline in operating profit margin the debt coverage indicators continued to remain weak (negative).

**Working capital intensive nature of operations:** The operations of OCL is working capital intensive. However, the operating cycle improved to 62 days in FY22 as compared to 99 days in FY21 mainly better collection in receivables and lower inventories. The average collection period stood at 101 days in FY22 (PY-137 days) as company offers credit period of around three months to its clients to sustain in the competitive market scenario. The average inventory period stood at 56 days in FY22 (PY-94 days) as company tried to maintain inventory at the optimum levels to execute the orders in timely manner.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Nevertheless, despite improvement in operating cycle, the working capital limits remain fully utilised for past twelve months ended June 2022.

**Susceptibility of profit margins due to volatile material prices:** The raw material is the major cost driver (constituting about 75% of total cost of sales in FY22) 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 may affect the company's profitability.

**Presence in competitive and fragmented industry:** The 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 currently being managed by Mr. Ajay Shah and Mr. Abhay Shah who have rich experience in the industry. The 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.

### Liquidity position: Poor

The liquidity position remains poor as reflected by limited cushion on undrawn working capital limits. Free cash and bank balance stood low at Rs.0.19 crore as on March 31, 2022 (PY- Rs. 0.59 crores). Further, cash flow from operation remained at Rs. 1.21 crores in FY22. The maximum average fund-based facility is almost fully utilised for the last 12 months ended June-22.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

### About the Company

Organic Coatings Limited (OCL) was incorporated in 1965, by Mr. Rajnikant Shah and currently being managed by Mr. Ajay Shah and Mr. Abhay Shah. OCL got listed on Bombay Stock Exchange on October 12, 1995. OCL is engaged in the manufacturing of printing ink. The 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1MFY23 (Prov.)
Total operating income	14.10	22.18	NA
PBILDIT	0.53	0.57	NA
PAT	-2.15	-2.00	NA
Overall gearing (times)	4.60	16.28	NA
Interest coverage (times)	0.39	0.39	NA

A: Audited, Prov.- Provisional, NA- Not available

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

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

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

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital Term Loan	-	-	-	Jan-2031	0.96	CARE B-; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	Jan-2031	1.39	CARE B-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	4.00	CARE B-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	0.50	CARE A4
Fund-based - LT-Working capital Term Loan	-	-	-	Feb-2024	0.53	CARE B-; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	Jan-2031	4.81	CARE B-; Stable

**Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working capital Term Loan	LT	0.96	CARE B-; Stable	-	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)	1)CARE B; Stable (20-Jun-19)
2	Fund-based - LT-Working capital Term Loan	LT	1.39	CARE B-; Stable	-	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)	1)CARE B; Stable (20-Jun-19)
3	Fund-based - LT-Cash Credit	LT	4.00	CARE B-; Stable	-	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)	1)CARE B; Stable (20-Jun-19)
4	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A4	-	1)CARE A4 (06-Aug-21)	1)CARE A4 (04-Sep-20)	1)CARE A4 (20-Jun-19)
5	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	1)Withdrawn (04-Sep-20)	1)CARE B; Stable (20-Jun-19)
6	Fund-based - LT-Working capital Term Loan	LT	0.53	CARE B-; Stable	-	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable / CARE A4 (04-Sep-20)	1)CARE B; Stable / CARE A4 (20-Jun-19)
7	Fund-based - LT-Working capital Term Loan	LT	4.81	CARE B-; Stable	-	1)CARE B-; Stable (06-Aug-21)	-	-

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities**

Name of the Instrument	Detailed Explanation
<b>A. Financial covenants</b>	
I. Penal interest	Penal interest @1% p.a. is applicable for non-compliance of terms of sanction, non-creation of security and Penal interest @2% p.a. is applicable in case of payment default. Where simultaneous defaults are observed under various heads where penal interest is applicable, the maximum penal interest to be charged over and above the normal applicable rate of interest shall be restricted to 2% p.a.
II. Pledge of shares	Where pledge of shares is stipulated it should be ensured that the bank does not hold shares of an amount exceeding 30% of the paid-up capital of that company or 30% of banks paid-up capital and reserves whichever is less
<b>B. Non-financial covenants</b>	
I. Submission of Stock Statement	The applicant/borrower shall submit to the bank monthly stock statement in the prescribed form within 10 <sup>th</sup> day of each succeeding month
II. Submission of audited annual accounts/quarterly results	The applicant/borrower shall submit to the bank, every year, audited annual accounts within a period not exceeding 6months / 3months (in case of listed company) from the close of the previous accounting year. Similarly quarterly results wherever applicable shall also be submitted within 45 days from the end of the last quarter

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on 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.

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