Organic Coatings Limited

August 06, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	4.90	CARE B-; Stable (Single B Minus; Outlook: Stable	Assigned
Long Term Bank Facilities	6.42 (Reduced from 6.49)	CARE B-; Stable (Single B Minus; Outlook: Stable)	Revised from CARE B; Stable (Single B; Outlook: Stable)
Long Term Bank Facilities	0.82 (Enhanced from 0.74)	CARE B-; Stable (Single B Minus; Outlook: Stable)	Revised from CARE B; Stable / CARE A4 (Single B; Outlook: Stable / A Four)
Short Term Bank Facilities	0.50	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**12.64 (Rs. Twelve Crore and Sixty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Organic Coatings Limited (OCL) is on account of moderation in the credit risk profile of the company owing to deterioration in the operating and financial performance characterized by decline in scale of operations coupled with dip in operating profit margins and cash losses incurred in FY21 (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.

Key Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.50 crore with tangible net worth base exceeding Rs.10 crore on a sustained basis
- Improvement in PBILDT margin to 10% and achieving of net profit on a sustained basis
- Improvement in the capital structure with the overall gearing reaching to 1.50x on a sustained basis
- Improvement in in debt coverage indicators with interest coverage ratio exceeding 2x and total debt to gross cash accruals reaching below 8x on a sustained basis
- Improvement in the liquidity position with current ratio exceeding 1.5x and average utilization of working capital bank borrowings remaining below 80% on a sustained basis

Negative Factors

- Elongation in the operating cycle beyond 120 days resulting into stretched liquidity on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in scale of operation coupled with cash losses in FY21: The total operating income (TOI) declined by around 50% and stood at Rs.14.10 crore in FY21 (vis-à-vis Rs.27.93 crore in FY20) due to challenging market conditions on account of covid-19 pandemic as company received lower orders from end users in printing and publication segment like, newspaper, print & packaging. Further, owing to decline in revenue, the operating profit margin also declined and stood at Rs.0.53 crore in FY21 (vis-à-vis Rs.1.95 core in FY20) and company has incurred cash loss of Rs.0.85 crore in FY21.
Despite more than five decades of operation of the company, the tangible net worth eroded and remained small at Rs.2.74 crore as on March 31, 2021 (vis-à-vis Rs.4.87 crore as on March 31, 2020) due to low capitalization along with net loss incurred during past three years ended as on March 31, 2021.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Leveraged capital structure and weak debt coverage indicators: The capital structure of OCL deteriorated and stood highly leveraged marked by overall gearing stood at 4.60 times as on March 31, 2021 (vis-à-vis 1.92 times as on March 31, 2020) owing to erosion in networth based due to net loss incurred coupled with addition of working capital term loan availed by the company to support its business in FY21. Further owing to cash losses incurred in FY21 coupled with decline in operating profit margin the debt coverage indicators continued to remained weak as reflected by total debt to GCA and interest coverage ratio stood at -14.73 times and 0.39 times respectively in FY21 (vis-à-vis 12.05 times and 1.66 times respectively in FY20).

Working capital intensive nature of operations: The operations of OCL is working capital intensive mainly on account of funds being blocked in receivables {avg. collection period stood at 137 days in FY21 (vis-à-vis 91 days in FY20)} as company offers credit period of around three months to its clients to sustain in the competitive market scenario and inventory {average inventory period stood at 94 days in FY21 (vis-à-vis 61 days in FY20)} 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 131 days in FY21 (vis-à-vis 137 days in FY20). All taken collectively, operations of the company remain moderately working capital intensive leading to high utilization of working capital limit with 91% average utilization of its working capital limit (Rs.4.00 crore) for past twelve months ended June 2021. The company also availed working capital term loan to fund its working capital requirements.

Restructuring of bank facilities of loan under taken by the company: During February, 2021, the company's bank facilities underwent restructuring and the same has been approved by the banks. As per the new structure, working capital term loans will now be repayable after mortarium of 12 months and repayment shall commenced from February, 2022. Earlier, the company had availed moratorium from March 2020 to August 2020 for interest on cash facility provided by RBI under COVID-19 pandemic situation.

Susceptibility of profit margins due to volatile material prices: The raw material is the major cost driver (constituting about 68% of total cost of sales in FY21) 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: 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: Stretched – The liquidity position remains Stretched as reflected by limited cushion on undrawn working capital limits. In addition, there has been a considerable increase in the company's debtor as well as inventory levels in FY21. Free cash and bank balance stood low at Rs.0.59 crore as on March 31, 2021. Further cash flow from operation remained negative at Rs.1.21 crore in FY21 (vis-à-vis negative of Rs.0.73 crore in FY20). However, for funding of interest, the company has availed Funded Interest Term Loan (FITL) facility of Rs.0.82 crore from the lender which will be repaid in 24 equal monthly installments after moratorium of 12 months and repayment will commenced from Mar-2022.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Manufacturing Companies

[Financial ratios – Non-Financial Sector](#)
[Liquidity Analysis of Non-financial Sector Entities](#)

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 (Rs. crore)	FY20 (A)	FY21 (A*)
Total operating income	27.93	14.10
PBILDT	1.95	0.53
PAT	-0.51	-2.15
Overall gearing (times)	1.92	4.60
Interest coverage (times)	1.66	0.39

A: Audited; A: Abridged financials*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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	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	-	-	Jan – 2031	0.99	CARE B-; Stable
Fund-based - LT-Working capital Term Loan	-	-	Jan – 2031	1.43	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	0.82	CARE B-; Stable
Fund-based - LT-Working capital Term Loan	-	-	Jan – 2031	4.90	CARE B-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Working capital Term Loan	LT	0.99	CARE B-; Stable	-	1)CARE B; Stable (04-Sep-20)	1)CARE B; Stable (20-Jun-19)	-
2.	Fund-based - LT-Working capital Term Loan	LT	1.43	CARE B-; Stable	-	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 (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 (04-Sep-20)	1)CARE A4 (20-Jun-19)	-
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (04-Sep-20)	1)CARE B; Stable (20-Jun-19)	-
6.	Fund-based - LT-Working capital Term Loan	LT	0.82	CARE B-; Stable	-	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	4.90	CARE B-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this companys

Sr. No.	Name of the 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

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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