

OC Specialities Private Limited

May 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	51.82	CARE BBB+; Stable	Assigned
Long Term / Short Term Bank Facilities	110.50	CARE BBB+; Stable / CARE A2	Assigned
Short Term Bank Facilities	37.68	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to OCSPL derives strengths from established presence of the company in specialty chemicals industry with customized products/solutions for large chemical companies, established R&D centre with trained & highly qualified staff, favourable revenue and profitability growth and comfortable financial risk profile.

The ratings consider the impact of hiving of the trading division of the company and focus on its manufacturing division resulting in decline in its scale of operations. The profitability margins are expected to improve with the company's focus on manufacturing activity and doubling of its existing capacities.

The rating strengths are however tempered with moderate scale of operations, product/geographical/customer concentration risk, high working capital intensity, cyclical nature of the agrochemical industry, susceptibility to regulations in various countries and foreign currency fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions:

Positive Factors

- Improvement in the scale of operations (revenue above Rs. 500 crore) to be supported by expansion at Sholapur along with improvement in profitability margins on a sustained basis.
- Improvement in debt coverage indicators with gearing below 0.5x on sustained basis.

Negative Factors

- Decline in profitability margin on sustained basis.
- Debt-funded capacity expansion is unable to achieve desired level of accruals.
- Weakening of debt coverage ratios on sustained basis

Analytical approach: Standalone

Outlook: Stable

CARE Edge believes that OC Specialities Private Limited will continue to benefit from its established market position and cater to the demand for providing customised solutions to crop science, life science and fine chemical industries. The financial risk profile is expected to remain comfortable backed by improvement in scale of operations and profitability with comfortable capital structure and coverage indicators.

Key Strengths:

Established presence in specialty specialty chemicals/agrochemicals industry with customized solutions/products:

OCSPL has an established track record of more than two decades in trading & manufacturing of various specialty chemicals with exclusive contracts from large chemical companies for providing customised solutions/products. It manufactures and supplies input chemicals to established companies for their patented products. The company has long-term supply contracts and established relationships with these companies for 10-12 intermediate products, which have limited competition in the domestic market.

Established R&D Centre with trained & highly qualified staff:

OCSPL has a healthy established centralized R&D centre near Vasai, Mumbai. It has trained staff with master's and doctorate qualification in chemistry with highly experienced & innovative R&D team comprising of doctorates & postgraduates. The R&D centre is fully equipped to conduct various chemistries / technologies. In-house analytical facilities like GC, GC-MS, HPLC, UV

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

Spectrometer etc. The company has capabilities to supply kilo quantities (Range from 10 mg to 100 kg) to commercial scale manufacturing quantities at varying temperatures (Range from -20 °C to 400 °C) and pressures (Upto 100 mbar and Vacuum Distillation setups at 0.1 mm). The customers only share the structure of the molecule and OCSPL drives the R&D to create a product as per client requirements.

Favourable revenue and profitability growth:

OCSPL's revenue from manufacturing activity grew at a CAGR of 18% over the period FY20-FY22. The company's operating profitability in the manufacturing division is ~18-20%, while that of the trading segment is 3-4%. Going forward from FY23, revenue growth will be supported by the company's sole focus on manufacturing specialty chemicals and its healthy pipeline of products to be launched in the near to medium term, supported by doubling of capacity with a new plant in Solapur. With the company's focus on manufacturing specialty chemicals and doubling of its existing capacities, the operating and net margins are expected to improve.

Strong presence & wide distribution network:

The manufacturing facility of the Company is located at Chincholi, Solapur in Maharashtra spanning across an area of about 20,000 square meters. The facility is well equipped to develop inventive chemical technologies to address the industrial needs. OCSPL produces advanced intermediates chemicals with multistep chemical synthesis. As informed, the facility has adequate infrastructure to perform various processes such as chlorination, diazotization, alkylation, cyclization, cyanation, esterification, bromination, Hydrolysis, chloromethylation, and hydrazine hydrate chemistry. The facility has process development lab for continuous process optimization. The Company is headquartered in Mumbai (Maharashtra) and has initiated a new manufacturing facility in August 2022; this new manufacturing facility of the Company at Solapur is fully automated and has 2 lines in operation. One line is dedicated for a single product and second is multi-purpose for 4 products. Further, its research centre is located at Vasai Road in the outskirts of Mumbai. The Company has one overseas office located in the United States of America (USA). The company has established a wide distribution network with presence in international markets. Key export markets include Europe, East Asia, and Middle East, amongst others.

Comfortable capital structure and liquidity position

OCSPL has comfortable financial risk profile with overall gearing of 0.98 times, TD/PBILDT of 2.39 times, interest coverage of 13.02 times in FY22. The gearing and coverage indicators are expected to remain moderately healthy, going forward, despite the debt-funded capex (in FY2022), supported by healthy accruals and profitability.

Key Weaknesses:**High product, geographical & customer concentration risk:**

OCSPL's product portfolio of about 60-70% caters to the agrochemical industry, followed by the pharmaceutical segment (10%). The high product concentration in agrochemicals and customer concentration (top ten customers contributed nearly 70% of the manufacturing revenues in FY2022) is a result of the company's presence in custom synthesis of some chemicals for companies. However long/complex development cycle and long-term contracts ensures customer stickiness.

Major customers of the Company include Bayer CropScience Limited, Syngenta AG, Ecolab, Saltigo GmbH amongst others.

In the international market, the Company caters to Germany, India, United Kingdom, Japan, China, Switzerland, Vietnam etc. Germany & India together contributes around 80% of the revenue for the company.

Cyclical nature of agricultural industry and impact of change in regulations:

Demand for agrochemicals is linked to agricultural production. Furthermore, the agrochemical industry is highly regulated by specific and separate registration processes in different countries and is subject to environmental rules and regulations. An adverse change in the export and import policies of countries will impact business prospects of Indian agrochemical manufacturers. The risk of a ban on any key product also persists.

High working capital intensity

OCSPL has an efficient working capital cycle in the past but since the company is going to focus more on manufacturing from FY23, the working capital cycle is projected to turn moderate owing to the same as the nature and product cycle of the products differs from 15 days to 60 days using the same set of machineries and again the manufacture depends upon the kind of orders on hand for the particular products. Moderate inventory levels and receipt of customer payments within 70-120 days have led to a high working capital cycle for the company. The overall working capital cycle was 51 days for FY22 which improved from 54 days for FY21 mainly due to improvement in collection period from 82 days in FY21 to 78 days in FY22 and reduction in inventory days from 36 days in FY21 to 29 days in FY22.

Procurement of raw materials & management of stock:

The Company sources raw material from both domestically and from international markets. It imports raw materials from countries like Germany, United States of America, People's Republic of China, Japan and Saudi Arabia. Any impact on the economy of these countries may have a considerable impact on the company's operations.

Foreign currency fluctuation risk

OCSPL is into imports & Exports. Hence, it naturally hedges some portion of its forex risk. The Company derives majority of its revenue from the domestic markets however, 34% of its revenue is derived from exports, exposing it to foreign exchange risk. Movements in exchange rates are influenced by various macro factors like demand/supply of the foreign currency, domestic inflation, deterioration in the financial condition of other economies relative to the USA, etc. Further, the fact that there could be a variation in the cash flows being projected/hedged by the Company and those actually received by it (in a particular quarter) coupled with the variation in the timing of receipt of those cash flows, exposes it to the risk of incurring losses, especially when the exchange rates are quite volatile.

Significant debt-funded capex incurred in FY23; achieving desired level of profitability remains to be seen:

The company had undertaken significant debt-funded capex of Rs. 150 crores over the period FY21-FY23 towards a new plant at the existing Sholapur unit. The capex was financed by a mix of debt (60 crore) and internal accruals. The plant is capitalized and has become operational from 1st April FY23, though the financial impact on the key revenue & profitability generated by this plant will be seen FY24 and onwards. Achieving desired levels of profitability and accruals from this expansion remains a key sensitivity. The risk is however mitigated to an extent by OCSPL's healthy pipeline of products, established relationships with existing customers and new alliances with other agrochemical players.

Liquidity: Adequate

The liquidity is adequate marked by sizable cash accruals against repayment obligation of around Rs. 13 crores in FY24 and FY25. Furthermore, average of maximum fund based working capital utilization for the last 12 months ended March 2023 was at around 50% which provides liquidity backup.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

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](#)

[Wholesale Trading](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

OC Specialities Private Limited was incorporated on 19th January 2005 as a private limited company by Mr. Manish Shah who has an experience of over two decades in the chemical industry. The Company is engaged in manufacturing of industrial chemicals. OCSPL is focused on providing customized specialty chemical solutions based on innovative research to service crop science, lifesience and fine chemical industries. The manufacturing facility of the Company is located at Chincholi, Solapur in Maharashtra spanning across an area of about 20,000 square meters. Till FY22 OC specialities Private limited were also involved in trading operations. However, in order to concentrate on manufacturing activity, the trading operations were gradually shifted to a group company named OC Specialities Chemical Private Limited. Trading accounted for around 57% of the total revenue in FY22. This business was gradually transferred to OC Specialities Chemical Private Limited since FY23. FY24 will be the first year when revenues will comprise entirely of manufacturing activities in this entity.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	505.45	676.64	349.49
PBILDT	62.31	74.54	58.88
PAT	40.47	49.49	NA
Overall gearing (times)	0.84	0.98	NA
Interest coverage (times)	9.81	13.02	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: NA

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: NA

Disclosure of Interest of Managing Director & CEO: NA

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 the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	FY27	51.82	CARE BBB+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	110.50	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	37.68	CARE A2

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 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	51.82	CARE BBB+; Stable				
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	110.50	CARE BBB+; Stable / CARE A2				
3	Non-fund-based - ST-BG/LC	ST	37.68	CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - NA**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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](#)

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

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Sudarshan Shreenivas Director CARE Ratings Limited Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in</p> <p>Name: Arunava Paul Associate Director CARE Ratings Limited Phone: 022- 6754 3667 E-mail: arunava.paul@careedge.in</p> <p>Name: Mariyam Saria Analyst CARE Ratings Limited E-mail: Mariyam.Saria@careedge.in</p>
---	--

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in