

## Organic Coatings Limited

July 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE B-; Stable and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4 and Withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of CARE B-; Stable / CARE A4 assigned to the bank facilities of Organic Coatings Limited with immediate effect. The above action has been taken at the request of Organic Coatings Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The reaffirmation of ratings assigned to the bank facilities of Organic Coatings Limited (OCL) continues to be tempered by small scale of operation coupled with improvement in operating profit margins albeit moderate, eroded net worth as on March 31, 2023, resulting in 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.

### Analytical approach: Standalone

### Key weaknesses

#### Small scale of operation:

TOI of the company stood at Rs. 23.03 crores in FY23 as compared to Rs. 22.18 crores in FY22. PBILDT margins stood at 6.66% in FY23 as compared to 2.58% in FY22. This led to positive gross cash accruals of Rs. 0.04 crores in FY23 as compared to negative in FY22.

#### Leveraged capital structure and weak debt coverage indicators:

The capital structure of OCL has deteriorated and stood leveraged with overall gearing of the company being negative in FY23 as compared to 16.28 in FY22 on account of erosion in net worth due to accumulated losses over the years. Further, debt coverage indicators stood weak marked with interest coverage at 1.03x in FY23 as compared to 0.39x in FY22 and total debt to gross cash accruals stood at 283x in FY23 as compared to negative in FY22.

#### Working capital intensive nature of operations:

The operations of OCL is working capital intensive. However, the operating cycle improved to 54 days in FY23 as compared to 62 days in FY22. The average collection period stood at 100 days in FY23 (PY-101days) 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 54 days in FY23 (PY-56 days) as company tried to maintain inventory at the optimum levels to execute the orders in timely manner.

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

The raw material is the major cost driver (constituting about 72% of TOI in FY23) 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.

<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

**Liquidity position:** Poor

The liquidity position remains poor as reflected by limited cushion on undrawn working capital limits. Free cash and bank balance stood negligible as on March 31, 2023 (PY- Rs. 0.19 crores). The average fund-based facility is around 90% for the last 12 months ended June-23.

**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](#)

[Policy on Withdrawal of Ratings](#)

**About the company and industry**

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

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, 2022 (A)	March 31, 2023 (A)
Total operating income	22.18	23.06
PBILDT	0.57	1.54
PAT	-2.00	-0.94
Overall gearing (times)	16.28	-63.50
Interest coverage (times)	0.39	1.03

A: Audited; Prov.: Provisional; NA: Not Available; The above results are latest financials 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:** Not Applicable

**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-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	31-01-2031	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	31-01-2031	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	28-02-2024	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan		-	-	31-01-2031	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

**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-Working capital Term Loan	LT	-	-	-	1)CARE B-; Stable (02-Aug-22)	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)
2	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE B-; Stable (02-Aug-22)	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE B-; Stable (02-Aug-22)	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable (04-Sep-20)
4	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4 (02-Aug-22)	1)CARE A4 (06-Aug-21)	1)CARE A4 (04-Sep-20)
5	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (04-Sep-20)
6	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE B-; Stable (02-Aug-22)	1)CARE B-; Stable (06-Aug-21)	1)CARE B; Stable / CARE A4 (04-Sep-20)
7	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE B-; Stable (02-Aug-22)	1)CARE B-; Stable (06-Aug-21)	-

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

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

**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.

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### About us:

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