Organic Coatings Limited
September 04, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term Bank Facilities	6.49 (Reduced from 7.26)	**CARE B; Stable (Single B; outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	0.50	**CARE A4 (A Four)**	**Reaffirmed**
Long/short term Bank Facilities	0.74	**CARE B; Stable/ CARE A4 (Single B; outlook: Stable/ A Four)**	**Reaffirmed**
Long term Bank Facilities	0.00	-	**Withdrawn**
Total Facilities	**7.73 (Rs. Seven Crore Seventy Three Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Organic Coatings Limited (OCL) continue to be constrained by moderate scale of operations coupled with low profit margins, leveraged capital structure, weak debt coverage indicators, working capital intensive nature of operations and weak liquidity position. The ratings further continue to be constrained by 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.

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.7 crore on a sustained basis
- Improvement in PBILDT margin exceeding 10% and achieving of net profit on a sustained basis
- Improvement in the capital structure with the overall gearing reaching to 1.00x 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 1x and average utilization of working capital bank borrowings remaining below 80% on a sustained basis

Negative Factors

- Elongation in the collection period exceeding 120 days, inventory holding exceeding 90 days on a sustained basis

Detailed description of Key rating drivers

Key Rating Weaknesses

Moderate scale of operations coupled with low profit margins: Total operating income of the company continued to remain moderate and the same has declined by 21.96% to Rs. 27.93 crore in FY20 vis-à-vis Rs. 35.79 crore in FY19 on account of decrease in order execution due to non-continuation of contract from one major customer Heidelberg India Private Limited in FY20. Despite more than five decades of operations of the company, the tangible net worth remained small at Rs. 4.87 crore as on March 31, 2020 (vis-à-vis Rs. 5.35 crore as on March 31, 2019) due to low capitalization along with net loss incurred during past two years.

The PBILDT margin of company have been low from the past five years ended FY20 however it improved to 6.98% in FY20 from 3.90% in FY19 mainly on account of decline in employee and labour cost, selling and distribution

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

expenses. Further, company reported net loss of Rs. 0.51 crore in FY20 vis-à-vis net loss of Rs. 1.03 crore in FY19. However gross cash accruals increased to Rs. 0.77 crore in FY20 vis-à-vis Rs. 0.31 crore in FY19.

Leveraged capital structure and weak debt coverage indicators: Capital structure of the company has deteriorated and remained leveraged with overall gearing of the company stood at 1.92x as on March 31, 2020 vis-à-vis 1.55x March 31, 2019 on account of decrease in net worth base due to net loss incurred and increase in debt level in FY20. However, total debt increased in FY20 due to additional working capital term loan availed by company to fund its working capital requirements. The debt coverage indicators continued to stand weak however total debt to gross cash accruals improved to 12.05x in FY20 vis-à-vis 26.94x in FY19 due to increase in gross cash accruals. Further, interest coverage ratio also improved to 1.66x in FY20 from 1.24x in FY19 due to improvement in profitability in FY20.

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 91 days in FY20 vis-à-vis 85 days in FY19) 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 61 days in FY20 vis-à-vis 50 days in FY19) 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 137 days in FY20 vis-à-vis 141 days in FY19. All taken collectively, operations of the company remain moderately working capital intensive leading to high utilization of working capital limit with 85% average utilization of its working capital limit (Rs. 4 crore) for past twelve months ended July 2020. Company also availed working capital term loan to fund its working capital requirements.

Liquidity position: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repay its debt obligations. Its average working capital limit utilization remained high at 85% during past 12 months ended July 2020. Further, free cash and bank balance remained low at Rs.0.01 crore as on March 31, 2020 (vis-à-vis Rs. 0.84 crore as on March 31, 2019). The current ratio and quick ratio stood low at 0.79x and 0.45x respectively as on March 31, 2020 (vis-à-vis 0.95x and 0.65x respectively as on March 31, 2019). Further cash flow from operations remained negative at 0.73 crore in FY20 (vis-à-vis negative of Rs. 0.57 crore in FY19). Company had availed moratorium from March 2020 to May 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 75% of total cost of sales in FY20) 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 currently being managed by 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.

Analytical approach: Standalone

Applicable Criteria:
[Criteria on assigning outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios (Non-Financial Sector)]

[CARE's Methodology for Short-term Instruments]
[Rating Methodology- 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. 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)	FY19 (A)	FY20 (A)
Total operating income	35.79	27.93
PBILDT	1.40	1.95
PAT	-1.03	-0.51
Overall gearing (times)	1.55	1.92
Interest coverage (times)	1.24	1.66

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for 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	-	-	(September 2022)	1.05	CARE B; Stable
Fund-based - LT-Working capital Term Loan	-	-	(October 2023)	1.44	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	-	-	-	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	0.74	CARE B; Stable / CARE A4

CARE Ratings
Professional Risk Opinion

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working capital Term Loan	LT	1.05	CARE B; Stable	-	1)CARE B; Stable (20-Jun-19)	-	-
2.	Fund-based - LT-Working capital Term Loan	LT	1.44	CARE B; Stable	-	1)CARE B; Stable (20-Jun-19)	-	-
3.	Fund-based - LT-Cash Credit	LT	4.00	CARE B; Stable	-	1)CARE B; Stable (20-Jun-19)	-	-
4.	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A4	-	1)CARE A4 (20-Jun-19)	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)CARE B; Stable (20-Jun-19)	-	-
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	-	1)CARE B; Stable / CARE A4 (20-Jun-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

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.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
4.	Non-fund-based - LT-Bank Guarantees	Simple
5.	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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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.