

Press Release

ARCL Organics Limited (ARCL)

April 08, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.22.50 Cr (Enhanced from Rs.20.00 Cr)
Long Term Rating	SMERA B/Stable (Upgraded from SMERA B-/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA B**' (**read as SMERA B**) and reaffirmed the short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.20.00 cr bank facilities of ARCL Organics Limited (ARCL). SMERA has also assigned rating of **SMERA B/Stable** on the Rs.2.50 cr bank facility. The outlook is '**Stable**'.

ARCL, incorporated in 1992, is a Kolkata-based company engaged in the manufacturing of liquid resin and formaldehyde.

The ratings have been upgraded on account of improvement in operating margins and debt protection metrics which is expected to be sustained. The ratings draw comfort from the experienced management and moderate financial risk profile. However, the ratings are constrained by the modest scale of operations and working capital intensive operations.

List of key rating drivers and their detailed description

Strengths:

Experience management: Mr. Mundhra and other directors of the company have more than three decades of experienced in the chemical industry.

Improved operating margins: The company's operating profitability improved in FY2016 to 5.98 per cent from 5.09 per cent in FY2015 mainly on account of stabilisation of business after the labour unrest issue faced in FY2015. This had caused the plant to be shut down for three months.

Moderate financial risk profile: The company has moderate financial risk profile marked by healthy networth of Rs.35.80 cr and low gearing of around of 0.36 times as on March 31, 2016. The interest coverage ratio stood moderate at 1.71 times in FY2016 which improved from 0.08 times in FY2015 on account of improved profitability.

Further, the company has debt funded capex plan which is likely to have minimal impact on the financial risk profile of the company.

Weaknesses:

Modest scale of operations: The company has modest revenues which remained almost stagnant in FY2016 at Rs.53.69 cr compared to Rs.52.54 cr in FY2015. The flattish growth in FY2016 was on

account of low realisations due to drop in product prices. The modest scale of operations restricts its economies of scale and bargaining power with customers.

Further, the company earned revenue of around Rs.46.00 cr from April to December, 2016 (provisional).

Working capital intensive operations: ARCL's gross current asset stands high at around 230 days mainly on account of high debtors of 174 days and inventory of 45 days in FY2016. Delays from customers led to high debtor days. However, the same has been funded through extended credit period from suppliers and working capital borrowings from bank. SMERA believes that considering the high working capital intensity, the company will need to manage its working capital efficiently. Any significant increase of receivables or build up of inventories will require additional funding support.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Application of Financial Ratios & Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smerra.in/criteria-default.htm>

Outlook: Stable

SMERA believes that ARCL will maintain a stable outlook and continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the working capital cycle or significant decline in debt protection metrics.

About the Rated Entity

ARCL, incorporated in 1992, is a Kolkata-based company engaged in the manufacturing of liquid resin and formaldehyde used majorly in the plywood industry. The company has also diversified its customer base to other industries like aqua food, paper, and laminates.

For FY2015-16, ARCL reported profit after tax (PAT) of Rs.0.26 cr on operating income of Rs.53.69 cr, as compared to net loss of Rs.3.53 cr on operating income of Rs.52.54 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016-II		FY2016-I		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Working Capital Term Loan	LT	5.00**	SMERA B/Stable (Upgrade)	Jan 25	SMERA B-/Stable (Reaffirmed)	Jan 09	SMERA B-/Stable (Reaffirmed)	Feb 17	SMERA B-/Stable (Assigned)
Cash Credit	LT	6.00	SMERA B/Stable (Upgrade)	Jan 25	SMERA B-/Stable (Reaffirmed)	Jan 09	SMERA B-/Stable (Reaffirmed)	Feb 17	SMERA B-/Stable (Assigned)
Letter of Credit	ST	8.45	SMERA A4 (Reaffirmed)	Jan 25	SMERA A4 (Reaffirmed)	Jan 09	SMERA A4 (Reaffirmed)	Feb 17	SMERA A4 (Assigned)
Proposed Fund Based Loan	LT	0.55	SMERA B/Stable (Upgrade)	Jan 25	SMERA B-/Stable (Reaffirmed)	-	-		
Proposed Fund Based Loan	LT	2.50	SMERA B/Stable (Assigned)						

**WCTL instalment paid will be available for utilisation as LC

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs in cr)	Ratings/Outlook
Working Capital Term Loan	NA	NA	NA	5.00**	SMERA B/Stable (Upgrade)
Cash Credit	NA	NA	NA	6.00	SMERA B/Stable (Upgrade)
Letter of Credit	NA	NA	NA	8.45	SMERA A4 (Reaffirmed)
Proposed Fund Based Loan	NA	NA	NA	0.55	SMERA B/Stable (Upgrade)
Proposed Fund Based Loan	NA	NA	NA	2.50	SMERA B/Stable (Assigned)

**WCTL instalment paid will be available for utilisation as LC

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Rating Analyst, Tel:022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.