

## Press Release

### National Oxygen Limited

July 15, 2019

### Rating Upgraded and Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 36.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable (Upgraded from ACUITE B-/Stable)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE B-**' (read as **ACUITE B**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 36.00 crore bank facilities of National Oxygen Limited (NOL). The outlook is '**Stable**'.

National Oxygen Limited (NOL) is a Public Limited company registered with Bombay & Madras Stock Exchanges with presence since 1974. NOL is a producer and supplier of Industrial Gases both in Liquid and Gaseous form to Industries and Hospitals. In 1980, the company installed and commissioned the first oxygen plant of 60 cubic metres per hour capacity at Mathur Village in Pudukottai District (Tamil Nadu). NOL currently has a capacity of 2500 m3 per hour of Oxygen / Nitrogen gases and 2,00,000 m3 per annum capacity of Dissolved Acetylene gas having manufacturing facilities at Pondicherry and Tamil Nadu.

### Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of NOL to arrive at the ratings.

### Key Rating Drivers

#### Strengths

- **Experienced management and establish track record of operations**

NOL has well established presence of over two decades in Industrial Gases. The company is engaged in manufacturing and supply of Industrial Gases both in Liquid and Gaseous form to Industries and Hospitals. The company is promoted by Mr. Gajanand Saraf, Mr. Rajesh Kumar Saraf and Ms. Veena Devi Saraf among others who have an experience of more than three decades in the industrial gas & fuel industry. The company is also well supported by second line of management.

- **Diversified product portfolio**

The company manufactures various types of industrial gases which are in high demand across industries of various sectors. These gases are manufactured by National Oxygen Limited, which includes Industrial Liquid Nitrogen, Industrial Gaseous Oxygen and Medical grade Oxygen among others. These gases are used in the medical industry, chemical industry, pharmaceutical industry and petrochemicals industry among others.

- **Improving revenue and margins**

The operating income of the company has increased by 11.44 percent Y-o-Y to Rs. 46.24 crore in FY2019 as against Rs. 41.49 crore in FY2018. The operating margins have improved to 18.38 percent in FY2019 as against 13.87 percent in FY2018. The PAT margins have also improved to 7.47 percent in FY2019 from (4.51) percent in FY2018. The improvement is due to reduction in operation cost, better pricing and improving scale of operations. The revenues are growing at Compounded Annual Growth Rate (CAGR) of 13.23 percent since FY2015. Acuite expects the company to maintain the same level of margins and growth in upcoming years.

## Weaknesses

- **Below-average financial risk profile**

The below-average financial risk profile of the company is marked by net worth of Rs. -5.05 crore as on 31 March, 2019 as against Rs. -8.50 crore as on 31 March, 2018 due to previous year's accumulated losses. The company has made profits of Rs. 3.45 crore for FY2019 which has been added to the current year reserves. The company is supported by unsecured loans of Rs.17.95 crore from sister companies and Directors. The financial risk profile has seen improvement due to repayment of major long term obligations. The interest coverage ratio stood at 2.43 times as on 31 March, 2019 as against 1.32 times as on 31 March, 2018. Debt/EBITDA stood high at 3.21 times in FY2019 as against 5.64 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.32 times in FY2019.

- **Regulatory restrictions and tender based nature**

The company deals in producing and supply of Industrial gases both in liquid and gaseous forms to Industries and Hospitals. This sector is highly regulated by government and any adverse change in policy will have direct impact on the company. Further, tender base nature of operations will have direct impact on the margins of the company as major orders for government entities and sectors are through tender bidding.

## Liquidity Position:

The liquidity profile of the company is slightly stretched marked by moderate cash accruals of Rs. 6.99 crore as against repayment obligations of Rs.2.12 crore for FY2019. The accruals are likely to remain moderate between Rs.6.50-7.00 crore for FY 2020-22. The current ratio of the company stood low at 0.23 times in FY2019 which shows slightly stretched liquidity profile. The working capital limits are almost fully utilised for last six months ending June 2019. The Debt/EBITDA stood high at 3.21 times in FY2019 as against 5.64 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 1.32 times in FY2019. Acuite believes that the improving scale of operations and absence of any future debt funded capex will improved liquidity to certain extent.

## Outlook: Stable

Acuite believes that NOL will maintain 'Stable' outlook over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve growth in scale of operations, or in case of deterioration in the company's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

## About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	46.24	41.49	36.10
EBITDA	Rs. Cr.	8.50	5.76	4.63
PAT	Rs. Cr.	3.45	-1.87	-5.41
EBITDA Margin	(%)	18.38	13.87	12.83
PAT Margin	(%)	7.47	-4.51	-14.99
ROCE	(%)	24.33	10.32	2.25
Total Debt/Tangible Net Worth	Times	-7.57	-5.18	-7.37
PBDIT/Interest	Times	2.43	1.32	0.76
Total Debt/PBDIT	Times	3.21	5.64	9.93
Gross Current Assets (Days)	Days	46	45	68

## Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-May-2018	Term Loan	Long Term	6.15	ACUITE B- / Stable (Upgraded from D)
	Cash Credit	Long Term	5.50	ACUITE B- / Stable (Upgraded from C)
	Secured Overdraft	Long Term	12.50	ACUITE B- / Stable (Upgraded from C)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Proposed Long Term Loan	Long Term	8.85	ACUITE B- / Stable (Upgraded from C)
14-Jun-2017	Term Loan	Long Term	11.32	ACUITE D (Assigned)
	Cash Credit	Long Term	5.50	ACUITE C (Assigned)
	Secured Overdraft	Long Term	12.50	ACUITE C (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
	Proposed Long Term Loan	Long Term	3.68	ACUITE C (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B / Stable (Upgraded from B-/Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.02	ACUITE B / Stable (Upgraded from B-/Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE B / Stable (Upgraded from B-/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.98	ACUITE B / Stable (Upgraded from B-/Stable)

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### About Acuité Ratings & Research:

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