

Press Release

Onward Chemicals Private Limited

May 02, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB / Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 7.00 crore bank facilities of Onward Chemicals Private Limited (OCPL). The outlook is '**Stable**'.

Incorporated in 1996, OCPL is one of the key distributors of raw materials for thermoplastic road markings. OCPL provides cuprous oxide and resin to paint manufacturers, formulators of road markings and applicators across India. The company also provides strategic mix of specialty chemicals for surface coatings, adhesives and sealants. The company's warehouse is situated in Bhiwandi (Maharashtra) and products are sold Pan India. OCPL is promoted by Mr. Parul Tibrewala, Mr. Amit Tibrewala and Ms. Panadevi Tibrewala.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of OCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The Director, Mr. Amit Tibrewala has an experience of over two decades in the chemical industry. He is well supported by his father, Mr. Shyamsunder Tibrewala who also possesses experience in the similar line of business over three decades. OCPL backed by its experienced management has developed healthy relations with various domestic as well as global clientele.

- **Moderate financial risk profile**

OCPL's modest financial risk profile is marked by low net worth, modest gearing and healthy debt coverage metrics. The company's net worth stood at Rs.4.57 crore in FY2018 as against Rs. 4.06 crore in FY2017. Debt-equity ratio stood modest at 1.07 times in FY2018 as against 0.99 crore on account of increased working capital borrowing. The debt primarily includes vehicle loan of Rs. 0.43 crore and unsecured loans of Rs. 0.19 crore from Directors and working capital of Rs.4.29 crore as on March 31, 2018. TOL/TNW stood at 1.65 times in FY2018. The company has a healthy interest coverage ratio of 2.44 times and DSCR of 2.14 times in FY2018. Going forward, the financial risk profile is expected to remain stable backed by steady accruals.

Weaknesses

- **Intense working capital cycle**

The operations of OCPL are working capital intensive marked by high Gross Current Asset (GCA) of 157 days in FY2018 compared to 128 days in FY2017. The GCA days are mainly dominated by high inventory of 63 days in FY2018 as against 44 days in FY2017 and debtor of 59 days in FY2018 as against 75 days in FY17. The average cash credit utilisation for the past six months stood at ~70 percent. Acuité believes that the efficient working capital management will be crucial to the

firm in order to maintain a stable credit profile.

• Competitive and fragmented industry

OCPL operates in a very competitive industry. There are many domestic as well as international players involved in sourcing and trading of chemical materials like OCPL. Hence, this would lead to the company having very low margins on their operations.

Liquidity profile

Liquidity profile is moderate marked by net cash accruals of Rs.0.70 crore during FY18 against maturing debt obligations of Rs.0.15 crore over the same period. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 157 in FY 2018 and the cash credit limit of the firm remains utilised at ~70 per cent during the last twelve months ended March 2019. The current ratio of the firm stood modest at 1.38 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes OCPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.53	24.08	25.82
EBITDA	Rs. Cr.	1.42	1.50	1.20
PAT	Rs. Cr.	0.51	0.50	0.33
EBITDA Margin	(%)	6.29	6.25	4.64
PAT Margin	(%)	2.27	2.10	1.26
ROCE	(%)	14.76	15.90	12.15
Total Debt/Tangible Net Worth	Times	1.07	0.99	1.60
PBDIT/Interest	Times	2.44	2.41	1.96
Total Debt/PBDIT	Times	3.30	2.62	4.61
Gross Current Assets (Days)	Days	157	128	150

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
06-Mar-2018	Cash Credit	Long Term	INR 7	ACUITE BB / Stable (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	7.00	ACUITE BB / Stable (Reaffirmed)

*Includes sublimit of Letter of Credit (LC) to the extent of Rs. 5.00 crore, FBP/ FCBP/FBD/FCBD to the extent of Rs. 1.75 crore and PC/PCFC to the extent of Rs. 1.25 crore

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Priyanka Rathi Analyst - Rating Operations Tel: 033-6620-1210 priyanka.rathi@acuite.ratings.in</p>	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.