Acuite
RATINGS & RESEARCH

Press Release

Onward Chemicals Private Limited

July 16, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BB' (read as ACUITE double B)** on 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 a strategic mix of speciality chemicals for surface coatings, adhesives and sealants. The company's warehouse is situated in Bhiwandi (Maharashtra) and products are sold to 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 promoters**

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 a 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 has moderate financial risk profile marked by its moderate net worth, low gearing and healthy debt protection measures. The net worth of the company is around Rs.7.68 crore as on 31 March, 2020 (Provisional) as against Rs. 5.59 crore as on 31 March, 2019. The increase in net worth is on account of increasing revenue and profitability, leading to higher accretion to reserves.
The company has followed conservative financial policy as reflected by peak gearing of 1.07 times over the last three years through FY2018- 20. The gearing of the company has remained around 0.32 times as on 31 March, 2020 (Provisional) as against 0.58 times as on March 31, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.76 times as on 31 March, 2020 (Provisional) as against 1.11 times as on 31 March, 2019.
The healthy revenue levels, coupled with stable operating margins have resulted in healthy debt protection measures. The profitability margins of the company have remained fairly stable over the past three years ended with the operating margin ranging between 5.90 to 7.02 percent through FY2020 and PAT margin ranging from 2.27 to 3.63 percent through FY2020. Interest Coverage Ratio (ICR) remained healthy at 5.22 times in FY2020 and 4.24 times in FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.69 times as on 31 March, 2020 as against 0.38 times as on 31 March, 2019. Debt Service Coverage Ratio (DSCR) stood at 3.12 times in FY2020 as against 2.62 times in FY2019.
Acuité believes that the financial risk profile of the company will continue to remain moderate over the medium term on account of its healthy scale of operations, and no major debt-funded capex plans in the near term.

Weaknesses

- **Intensive working capital management**

OCPL has intense working capital management marked by Gross Current Assets (GCA) of 102 days in FY2020 (Provisional) as against 97 days in FY2019. The company maintains an inventory of around 45 days on an average and extends clean credit of around 45 -60 days to its customers. The inventory and debtor levels stood at 45 days and 47 days in FY2020 as against 42 days and 41 days in FY2019, respectively. The company has moderate working capital facility utilization of around 70-80 percent during FY2020. Further, the company's liquidity is supported by adequate cash accruals, no debt repayments obligations.
Acuité believes that the efficient working capital management will be crucial to the company 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 its operations.

Rating Sensitivity

- Sustenance of revenue growth with maintaining operating and PAT margins.
- Maintaining a moderate financial risk profile.

Material Covenants

Maintain minimum Current Ratio of 1.33 times
Maintain TOL/TNW below 4.5 times

Liquidity Position: Adequate

OCPL has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.70-1.68 crore during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.0.15-0.17 crore over the same period. The cash accruals of the company are estimated to remain around Rs.1.50-1.94 crore during 2021-23, while its repayment obligations are estimated to be nil. The company has intense working cycle operations as marked by Gross Current Assets (GCA) of 102 days in FY 2020 (Provisional). This has led to moderate reliance on working capital borrowings; the cash credit limit remains utilized at around 70-80 percent during the last 12-month period ended in June 2020. The current ratio of the company stood healthy at 2.05 times as on March 31, 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and low repayments over the medium term.

Outlook: Stable

ACUITE 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 operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a 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	FY20 (Provisional)	FY19(Actual)
Operating Income	Rs. Cr.	40.26	36.37
PAT	Rs. Cr.	1.46	1.02
PAT Margin	(%)	3.63	2.79
Total Debt/Tangible Net Worth	Times	0.32	0.58
PBDIT/Interest	Times	5.22	4.24

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-52.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-May-2019	Cash Credit	Long Term	7.00	ACUITE BB/Stable (Reaffirmed)
06-Mar-2018	Cash Credit	Long Term	7.00	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)

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