

Press Release

Onward Chemicals Private Limited

October 14, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

Rationale for reaffirmation of ratings

The rating continues to derive comfort from the extensive experience of the promoters in the line of business, established relationships with its customer and supplier base, stable business risk profile along with adequate liquidity. The rating nonetheless remains constrained on account stretch in working capital requirements to sustain the business risk profile while witnessing deterioration in its profitability and coverage indicators on account of stress in the cost structure.

About the Entity

Based in Mumbai and incorporated in 1996, Onward Chemicals Private Limited (OCPL) is promoted by Mr. Parul Tibrewala, Mr. Amit Tibrewala and Ms. Panadevi Tibrewala. OCPL is one of the key distributors of raw materials imported from international market for thermoplastic road markings, Printing Ink, Industrial Coatings, Marine Coatings, Can/Coil Coating to name a few. The raw materials are in the form of speciality chemicals for surface coatings, adhesives, sealants, cuprous oxide and resin to paint manufacturers, formulators of road markings and applicators sold in India with warehouse located in Bhiwandi (Maharashtra).

Analytical Approach

Acuité has considered the 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 supported by 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 for over three decades. OCPL, backed by its experienced management, has developed healthy relations with reputed clients such as G R Infraprojects Limited.

- **Moderate financial risk profile**

OCPL has a moderate financial risk profile marked by its modest net worth, low gearing and moderating yet adequate debt protection indicators.

The tangible networth of OCPL stood at Rs.8.37 Cr. as on March 31, 2021 (Provisional) as against Rs.6.90 Cr. as on March 31, 2020 in the back of accretion to reserves. OCPL follows a conservative financial policy as reflected by peak Gearing (Debt to Equity) of 0.58 times as on March 31, 2021 (Provisional) as against 0.39 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.44 times as on 31 March, 2021 (Provisional) as against 1.16 times as on 31 March, 2020. The increase in Gearing and TOL/TNW is to be attributed to higher short-term fund based bank facilities availed by OCPL.

The debt protection indicators have moderated on a Y-O-Y basis with an Interest Coverage Ratio (ICR) of 3.84 times in FY2021 (Provisional) as against 4.55 times in FY2020, while the Net Cash Accruals/Total Debt (NCA/TD) stood at 0.34 times as on March 31, 2021 (Provisional) as against 0.58 times as on March 31, 2020.

Acuité believes that the financial risk profile of OCPL will remain moderate in near to medium term.

Weaknesses

- **Increase in working capital requirements to sustain business risk profile**

OCPL's working capital requirements have increased on Y-O-Y basis and stand intensive as visible in its GCA (Gross Current Asset) of 155 days in FY2021 (Provisional) as against 121 days in FY2020. The deterioration in GCA is because of higher inventory holding period and debtors' collection period in FY2021 as against FY2020. The debtors' collection period of OCPL stood at 77 days in FY2021 (Provisional) as against 62 days in FY2020 while its inventory holding period stood at 70 days in FY2021 (Provisional) as against 46 days in FY2020.

Further, the increase in OCPL's working capital requirements is visible in the increase in its creditors' payment period of 79 days in FY2021 (Provisional) as against 35 days in FY2020. The funds based working capital bank lines remains utilised at an average of ~88 percent for the 6-month period ended September 2021.

On the back of higher reliance on working capital requirements OCPL generated operating income of Rs.40.21 Cr. in FY2021 (Provisional) as against Rs.39.27 Cr in FY2020; albeit the impact of covid-19. Nonetheless, stress in its cost structure has resulted in deterioration of operating (EBITDA) margins of 5.60 percent in FY2021 (Provisional) as against 6.61 times in FY2020.

- **Intense competition aggravated by fragmented nature of the industry**

OCPL operates in a very competitive environment that has a presence of several domestic as well as international players involved in sourcing and trading of chemical materials marketed by OCPL. This often results in very low margins from its operations.

Liquidity position: Adequate

OCPL has an adequate liquidity position marked by adequate Net Cash Accruals (NCA) vis-à-vis its NIL maturing debt obligations. The Net Cash Accruals (NCA) of OCPL stood at Rs.1.66 Cr. in FY2021 (Provisional) as against Rs.1.56 crore in FY2020. The net cash accruals are expected to be in the range of Rs.1.40 crore – Rs.2.00 crore during the FY2022-24 period, while its repayment obligations are expected remain NIL during the same period. The cash and bank balance stood at Rs.0.02 Cr as on March 31, 2021 (Provisional) while the current ratio stood at 1.46 times as on March 31, 2021 (Provisional).

The increased reliance on working capital facilities has resulted in increase of short term debt of Rs.4.87 Cr. as on March 31 (Provisional) as against Rs.2.70 Cr. as on March 31, 2020 with its fund based bank lines being utilised at an average of ~88 percent during the 6-month period ended September 2021. Acuité believes that the liquidity of the entity is likely to remain adequate over the near to medium term on the back of expected improving business environment.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material Covenants

None

Outlook: Stable

Acuité believes that OCPL will maintain a 'Stable' outlook in the near to medium term on account of its established track record of the entity supported by extensive experience of the promoters. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the entity registers substantial decline in revenues, or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity – Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	40.21	39.17
PAT	Rs. Cr.	1.47	1.31
PAT Margin	(%)	3.65	3.34
Total Debt/Tangible Net Worth	Times	0.58	0.39
PBDIT/Interest	Times	3.84	4.55

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

None

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
16-Jul-2020	Cash Credit	Long Term	7.00	ACUITE BB / Stable (Reaffirmed)
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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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