

Press Release

D R Coats Ink And Resins Private Limited

June 20, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 33.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 33.00 crore bank facilities of D R Coats Ink And Resins Private Limited (DRPL). The outlook is '**Stable**'.

Incorporated in 2003, DRPL is a Mumbai-based company promoted by Mr. Amit Drolia and family. The company is engaged in manufacturing of synthetic resins such as polyamides, ketonic resins, and epoxy resins which finds application in production of paints, ink, adhesives, wood polish and acrylics. DRPL has two manufacturing units situated at Tarapur (Gujarat) and Mahad (Maharashtra). The installed capacity of Tarapur unit stands at 1000 MTPA and of Mahad unit stands at 1500 MTPA.

Analytical Approach

Acuité has considered the standalone business and financial profiles of DRPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

DRPL, incorporated in 2003, is led by Mr. Amit Kumar Drolia and family. Mr. Drolia has more than two decades of experience in the resins industry. The company manufactures synthetic resins such as polyamides, ketonic resins, and epoxy resins. As the product segment is very niche, the company has developed healthy relationship with its reputed customers which account for 45 percent of sales in FY2019 (Provisional) and FY2018. Further, DRPL has established relations with suppliers for procuring raw materials.

Acuité believes that DRPL will sustain its existing business profile on the back of its experienced management and established customer and supplier relations over the near to medium term.

• Growth in revenue along with profitability

DRPL's revenue grew at a CAGR of ~7.5 percent over the last four years through 2016-19 (Provisional). The company showed improvement in revenues marked by operating income of Rs.130.34 crore in FY2018 as against Rs.114.69 crore in FY2017 and 113.34 crore in FY2016. Further, the company has booked revenue of Rs.140.91 crore for FY2019 (Provisional). DRPL has set up new manufacturing facility in Mahad, operations of which commenced from September, 2018. This new facility will further add to the revenues for FY2020. Further, DRPL's operating margins stood at 4.59 percent in FY2018 as against 5.33 percent in FY2017 and 4.69 percent in FY2016. Further, the company reported Profit after Tax (PAT) margin of 1.67 percent in FY2018 against 1.69 percent in FY2017 and 1.66 percent in FY2016. The fluctuations in profitability margins are on account of fluctuations in prices of major raw material.

Acuité believes that the growth in revenue and sustenance of its profitability margins are expected to support the overall growth of the company.

Weaknesses

- **Working capital intensive operations**

The company's operations are working capital intensive marked by high Gross Current Asset (GCA) of 156 days in FY2018 as compared to 157 days in FY2017. The collection period stood at 75 days in FY2018 compared to 69 days in FY2017. The inventory holding stood at 61 days in FY2018 and 67 days in FY2017. The working capital facility is fully utilised for last six months ending April 2019. Acuité believes that an efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Susceptible to fluctuations in prices of raw material and forex rates**

The fluctuation in operating margins is marked by fluctuations in raw material prices. The basic raw materials required by DRPL such as monomer are crude oil derivatives whose prices are subject to volatility in line with those of global crude oil prices. Further, DRPL imports part of its raw material from Japan, Korea and USA, and exports its products to countries such as USA and Europe. Thus, it is exposed to adverse fluctuation in foreign currency exchange rates.

Liquidity position:

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. DRPL generated cash accruals of Rs.2.3-2.9 crore during the last three years through 2016-18, while the maturing debt obligations were in the range of Rs.0.50-1.40 crore over the same period. With incremental manufacturing capacity, the cash accruals are expected to improve to around Rs.5.00-8.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.2.5-3.00 crore. DRPL operates in a working capital-intensive nature of operations marked by gross current asset (GCA) days of 156 in FY2018. Further, the cash credit limit of the company is utilised fully for last twelve months ended April, 2019. DRPL maintains cash and bank balances of Rs.0.16 crore as on March 31, 2018. The current ratio stood moderate at 1.07 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that DRPL's outlook will remain 'Stable' over the medium term from its experienced management along with improvement in revenues and profitability. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues while improving its profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	130.34	114.69	113.34
EBITDA	Rs. Cr.	5.99	6.11	5.31
PAT	Rs. Cr.	2.18	1.93	1.88
EBITDA Margin	(%)	4.59	5.33	4.69
PAT Margin	(%)	1.67	1.69	1.66
ROCE	(%)	12.00	15.10	15.33
Total Debt/Tangible Net Worth	Times	1.71	1.62	1.39
PBDIT/Interest	Times	3.09	2.29	2.33
Total Debt/PBDIT	Times	4.93	4.08	3.43
Gross Current Assets (Days)	Days	156	157	151

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
28-Mar-2018	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.17	ACUITE BBB- / Stable (Assigned)
	Packing Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.40	ACUITE A3 (Assigned)
	Buyer's credit	Short Term	9.00	ACUITE A3 (Assigned)
	Proposed Fund Based Facility	Long Term	5.43	ACUITE BBB- / 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	21.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.11	ACUITE BBB- / Stable (Reaffirmed)
PCFC/FBP/FBD	Not Applicable	Not Applicable	Not Applicable	2.00^	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A3 (Reaffirmed)
Buyer's credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Withdrawn)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	6.49	ACUITE BBB- / Stable (Reaffirmed)

[^]PCFC/FBP/FBD of Rs.2.00 crore includes sublimit PC/PCFC to the extent of Rs.1.50 crore

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About Acuité Ratings & Research:

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