

Press Release

D R Coats Ink And Resins Private Limited

August 13, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 35.00 Cr. (Enhanced from Rs.33.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.35.00 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 the production of paints, ink, adhesives, wood polish and acrylics. Further, the company has added a new product line for aldehyde hydrate, which is used in paints and printing. DRPL has two manufacturing units situated at Tarapur and Mahad (Maharashtra). The installed capacity of Tarapur unit stands at 10000 MTPA and of Mahad unit stands at 15000 MTPA.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

DRPL, incorporated in 2003, holds established track record of operations for nearly two decades. The company is promoted 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 a healthy relationship with its reputed customers which account for 50 percent of sales in FY2020 (Provisional) and FY2019. DRPL booked revenue of Rs.140.76 crore Provisional for FY2020 and Rs.140.22 crore for FY2019. 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.

- **Moderate financial risk profile**

DRPL has moderate financial risk profile marked by tangible net worth of Rs.24.64 crore as on 31 March, 2020 (Provisional) as against Rs. 21.02 crore as on 31 March, 2019. The gearing (debt to equity) stood moderate at 1.28 times as on March 31, 2020 (Provisional) as against 1.64 times as on March 31, 2019. The total debt of Rs.31.54 crore as on March 31, 2020 (Provisional) comprises of a term loan of Rs.4.97 crore, unsecured loans from promoters of Rs.5.03 crore and working capital borrowing of Rs. 21.55 crore. The coverage indicators stood healthy, marked by Interest Coverage Ratio (ICR) of 2.47 times for FY2020 (Provisional) as against 2.72 times for FY2019. DSCR stood moderate at 1.43 times for FY2020 (Provisional) as against 1.76 times in FY2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 2.89 times as on 31 March, 2020 (Provisional) as against 3.50 times as on 31 March, 2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.16 times Provisional in FY2020 as against 0.15 times in FY2019.

Going forward, Acuité expects the financial risk profile to remain moderate on account of the absence of significant debt-funded capex plans and moderate net cash accruals.

Weaknesses

- **Working capital intensive operations**

The company's operations are working capital intensive marked by high Gross Current Asset (GCA) of 180 days Provisional in FY2020 as compared to 181 days in FY2019. The collection period stood at 74 days in FY2020 (Provisional) compared to 79 days in FY2019. The inventory holding stood at 101 days Provisional in FY2020 as against 79 days in FY2019. Increase in inventory days is majorly on account of the outbreak of COVID – 19 followed by lockdowns across the country, coupled with a restriction on movement of goods and people across the country. Further, the working capital facility is fully utilised for the last six months ending March, 2020.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Susceptibility to fluctuations in raw material prices**

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 the USA, and exports its products to countries such as the USA and Europe. Thus, it is also exposed to adverse fluctuation in foreign currency exchange rates. However, DRPL's exports are ~37 percent and imports are ~33 percent which leads to natural hedge.

Rating Sensitivities

- Any further deterioration in working capital management
- Significant improvement in scale of operation while maintaining profitability margins

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. DRPL generated cash accruals of Rs.2.92-5.14 crore during the last three years through 2018-20 Provisional, while the maturing debt obligations were in the range of Rs.1.38-2.34 crore over the same period. DRPL operates in a working capital-intensive nature of operations marked by Gross Current Asset (GCA) days of 180 days Provisional in FY2020. Further, the cash credit limit of the company is utilised fully for the last twelve months ended March, 2020. DRPL maintains cash and bank balances of Rs.0.06 crore as on March 31, 2020 (Provisional). The current ratio stood moderate at 1.10 times as on March 31, 2020 (Provisional). 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 moderate financial risk profile. 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 a steep decline in revenues and profitability or stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	140.76	140.22
PAT	Rs. Cr.	3.61	3.75
PAT Margin	(%)	2.57	2.68
Total Debt/Tangible Net Worth	Times	1.28	1.64
PBDIT/Interest	Times	2.47	2.72

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
20-Jun-2019	Cash Credit	Long Term	21.00	ACUITE BBB- /Stable (Reaffirmed)
	Term Loan	Long Term	3.11	ACUITE BBB- /Stable (Reaffirmed)
	Packing Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.40	ACUITE A3 (Reaffirmed)
	Buyers Credit	Short Term	9.00	ACUITE A3 (Withdrawn)
	Proposed Bank Facility	Long Term	6.49	ACUITE BBB- /Stable (Reaffirmed)
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)
	Buyers Credit	Short Term	9.00	ACUITE A3 (Assigned)
	Proposed Bank 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	March, 2017	Not Applicable	March, 2024	2.70	ACUITE BBB- /Stable (Reaffirmed)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	2.00*	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.40	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.90	ACUITE BBB- /Stable (Reaffirmed)

*Interchangeability from Packing Credit to Cash Credit facility to an extent of Rs.2.00 crore.

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About Acuité Ratings & Research:

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