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ARCL Organics Ltd

December 17, 2020

Ratings

| Instrument / Facility | Amount (Rs. crore) | Rating | Rating Action |
|----------------------------|-----------------------|---|------------------|
| Long Term Bank Facilities | 6.00 | IVR BBB- /Stable (IVR Triple B Minus with Stable Outlook) | Revised |
| Short Term Bank Facilities | 10.25 | IVR A3 (IVR A Three) | Revised |
| Total | 16.25 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the aforesaid ratings assigned to the bank facilities of ARCL Organics Limited (ARCLOL) considers significant improvement in its profitability leading to improvement in its gross cash accruals in FY20 along with consequent improvement in the capital structure and debt protection metrics. Further, the ratings also continue to derive comfort from its long track record of operations with experienced promoters and established relationship with its customers. However, these rating strengths are partially offset by its modest scale of operations, volatility in raw material prices, competition from other players and increase in working capital intensity.

Rating Sensitivities

Upward Factors:

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Improvement in the capital structure with TOL/TNW improved to below 1.2x and improvement in debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors:

- Decline in operating income and/or profitability impacting the debt coverage indicators



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- Deterioration in the capital structure and debt protection metrics with interest coverage ratio gone below 2x
- Elongation in the operating cycle impacting the liquidity

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Long track record of operations**

The company commenced its operations in 1992 and has a long track of nearly three decades in manufacturing of petrochemical products. The long track record has helped the company to establish a healthy relationship with its customers and suppliers.

- **Experienced promoters**

The promoter, Mr. Suraj Ratan Mundra has long track record of managing the business of petrochemical products since last three decades. Before promoting ARCL Organics Limited- Mr Suraj Ratan Mundra has promoted Allied Resins & Chemicals Limited in 1983 which was subsequently merged with ARCL Organics Limited in 2011. Currently, along with Mr. Suraj Ratan Mundra is at the helm of affairs of the company with support from his two sons Mr. Mukesh Mundra and Mr. Rakesh Mundra who has been in the business since last two decades.

- **Established relationship with customers**

The company has a well-established clientele with relationship of more than two decades. The clientele includes reputed names like Himadri Speciality Chemicals Limited, Century Plyboards (I) Limited, BMR Industries Private Limited to name a few.

- **Improvement in the capital structure with improvement in debt protection metrics in FY20**

The financial risk profile of the company stood comfortable marked by its comfortable leverage ratios with improved cash accruals and satisfactory debt service protection metrics. The long-term debt-equity ratio though moderated marginally stood comfortable at 0.26 times as on March 31, 2020 as compared to 0.21 times as on March 31,2019. However, the overall gearing improved from 0.98 times as on March 31, 2019 to 0.73 times as on March 31, 2020. The improvement was mainly due to decrease in overall debt level and steady accretion of profit to reserves. Total indebtedness of the company also improved from 1.65x as on March 31,2019 to 1.26x as on March 31,2020. Besides,



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profitability metrics of the company improved significantly in FY20 with improvement in EBIDTA margin and PAT margin to 9.50% and 3.58% respectively as compared to 5.90% and 1.56% in FY19 as the company benefitted from the low cost purchase of raw materials. Driven by improved profitability and consequent improvement in gross cash accrual, the debt protection metrics also improved marked by interest coverage ratio and Total debt to GCA at 3.11 times and 4.01 years respectively in FY2020 as compared to 3 times and 7.79 years respectively in FY2019. DSCR also stood comfortable at 2.42 times in FY20. Infomerics expects the gearing and debt protection metrics of the company to remain comfortable in the medium term with marginal moderation in the leverage ratios due to ongoing capex plan. Further, Infomerics expects sharp improvement in the profitability metrics of the company in the near term.

Key Rating Weaknesses

- **Modest scale of operations**

The scale of operations of the company remain modest considering the long track record of operations. Total operating income in FY20 remained flat on a year-on-year basis at ~ Rs. 71 crore as sales in March 2020 month were affected by the outbreak of covid-19 pandemic. Further, till October, 2020 the company has achieved a total revenue of Rs. 42.88 crore

- **Volatility in raw material prices and competition from other players**

The prices of the major raw materials i.e. methanol, phenol are volatile in nature. Any significant upward fluctuations and the inability of the company to pass on the same to its customers will lead to dip in profitability. Further, being in a competitive and fragmented nature of industry limits its bargaining power.

- **Increase in working capital intensity arising from elongated operating cycle**

The operating cycle increased from 61 days in FY19 to 84 days in FY20. This was due to elongated receivables of 88 days in FY20 against 78 days in FY19 and high average inventory holding of 70 days in FY20 against 65 days in FY19. Besides, payable days also reduced from 47 days in FY19 to 37 days in FY20. The elongation in average Inventory period and in average collection period was mainly due to non-lifting of materials and delayed collection due to Covid outbreak and ensuing nationwide lock down in March 2020.



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Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The Company is expected to have adequate liquidity in near term driven by expected accruals to the tune of Rs.8.50 – 10.70 crore in next three years as against annual repayment obligations in the tune of Rs.1.35-1.70 crore during FY21-23. Further, the liquidity position is also backed by moderate buffer in its working capital borrowing limits.

About the Company

Incorporated in 1992, ARCL Organics Limited (formerly known as Allied Resins and Chemicals Ltd) is a Kolkata based company engaged in the manufacturing of PF Resin, Formaldehyde and Paraformaldehyde. The products are predominantly used in wood products industry as adhesives and specialty chemical manufacturing. ARCLOL has a 52,410 MTPA plant located in Gobindapur Area of West Bengal. The company is recognized as a Star Export House by the Govt. of India and exports its products to more than 40 countries.

Financials (Standalone):

| For the year ended* / As On | (Rs. crore) | |
|-----------------------------|----------------|----------------|
| | 31-03-2019 | 31-03-2020 |
| | Audited | Audited |
| Total Operating Income | 70.80 | 70.79 |
| EBITDA | 4.18 | 6.72 |
| PAT | 1.12 | 2.57 |
| Total Debt | 20.43 | 17.45 |
| Tangible Net worth | 20.93 | 23.98 |
| EBITDA Margin (%) | 5.90 | 9.50 |
| PAT Margin (%) | 1.56 | 3.58 |
| Overall Gearing Ratio (x) | 0.98 | 0.73 |

**Classification as per Infomerics' standards.*



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Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|--|-------------------------------|--------------------------------|--------------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Long Term Bank Facilities- Cash Credit | Long Term | 6.00 | IVR BBB-/ Stable Outlook | IVR BB+/ Stable Outlook (November 28, 2019) | - | - |
| 2. | Short Term Bank Facilities- LC (including proposed limits of Rs. 0.40 crore) | Short Term | 10.25 | IVR A3 | IVR A4+ (November 28, 2019) | - | - |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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| | |
|---|---|
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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities- Cash Credit | - | - | - | 6.00 | IVR BBB-/ Stable Outlook |
| Short Term Bank Facilities- LC (including proposed limits of Rs. 0.40 crore) | - | - | - | 10.25 | IVR A3 |

Annexure 2: Facility wise lender details (Hyperlink to be added)

<https://www.infomerics.com/admin/prfiles/Lender-ARCL-Organics-Limited-.pdf>