Press Release

ARCL Organics Limited

November 28, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	6.00	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	10.25	IVR A4+ (IVR A Four Plus)	Assigned
Total	**16.25**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of ARCL Organics Limited (ARCLOL) derive comfort from its long track record of operations with experienced promoters, established relationship with customers along with its comfortable gearing and debt protection metrics. However, the rating strengths are partially offset by its modest scale of operations, volatility in raw material prices and competition from other players and moderate working capital intensity.

Key Rating Sensitivities

- Upward Rating Factor- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals could lead to a positive rating action.
- Downward Rating Factor- Dip in operating income and deterioration in working capital management could lead to a negative rating action.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Long track record

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 three decades in managing the business of petrochemical products. Before promoting ARCLOL- Mr Suraj Ratan Mundra has promoted Allied Resins & Chemicals Limited in 1983 which was subsequently merged with ARCLOL in 2011. Currently, along with Mr. Suraj Ratan Mundra the affairs of the company are managed by his 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 various reputed names. The top ten customer's constituents ~ 16% of the total sales in FY2019 indicating a well-diversified customer profile.

Comfortable gearing and debt protection matrices

The financial risk profile of the company stood comfortable marked by its comfortable leverage ratios with moderate cash accruals and satisfactory debt service protection metrics. The overall gearing though moderated marginally from 0.52 times as on March 31, 2018 to 0.88 times as on March 31, 2019 stood comfortable. The moderation was mainly due to higher working capital utilisation. However, total indebtedness as reflected by the TOL/TNW remained comfortable at 1.62 times as on March 31, 2019. Further, the debt protection metrics improved as envisaged from the interest coverage ratio of 2.12 times in FY2019 as compared to 1.49 times a year earlier. DSCR also stood comfortable at 2.34 times in FY19. Infomerics expects the gearing and debt protection metrics to remain comfortable in the medium term in the absence of any significant capex plan.

Key Rating Weaknesses

Modest scale of operations

The scale of operations improved at a compounded annual growth rate of ~27 % during the past three years (FY17-FY19). The improvement in the export sales in FY 19 (which stood at Rs.24 crore in FY19 as against Rs.2.62 crore in FY18) led to improvement in the total operating income. Notwithstanding the growth in total operating income the scale of operations remained modest considering the long track record of operations. Further, in H1 FY20 the company has achieved a total revenue of Rs.33 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. However, Infomerics noticed that the operating profitability gradually improved to 5.9% in fiscal 2019 from 3.83% in fiscal 2017, though remained modest mainly due to fluctuations in the price of methanol, which has been impacted by volatility in the price of primary feedstock, natural gas; demand situation in major consumer countries such as China.

Moderate working capital intensity

The average collection period was elongated at approximately 78 days and average inventory of 64 days in FY19. This implies moderate working capital intensive operations where much of the company cash is locked up in inventory and with the customers. On an average, the company takes around 60 days to pay its suppliers. The cash conversion cycle for the company is around 60 days for FY19.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios and 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. 3.16 - 3.76 crore in next three years as against annual repayment obligations in the tune of Rs.1.34 crore. 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):

(Rs. crore)

For the year ended* / As On	**31-03-2018**	**31-03-2019**
	Audited	**Audited**
Total Operating Income	48.76	70.80
EBITDA	2.51	4.18
PAT	0.56	1.12
Total Debt	10.09	18.38
Tangible Net worth	19.40	20.93
EBITDA Margin (%)	5.14	5.90
PAT Margin (%)	2.01	2.10
Overall Gearing Ratio (x)	0.52	0.88

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Acuite Ratings has moved the rating of ARCLOL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated September 11, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	**Name of Instrument/Facilities**	**Current Rating (Year 2019-20)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Long Term Bank Facilities –Cash Credit	Long Term	6.00	IVR BB+ / Stable Outlook	-	-	-
3.	Short Term Bank Facilities – Letter of Credit	Short Term	10.25	IVR A4+			

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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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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	6.00	IVR BB+ /Stable
Letter of Credit	-	-	-	10.25	IVR A4+