Press Release

ARCL Organics Limited

July 3, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	6.00	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Reaffirmed	Simple
Short Term Bank Facilities	9.85	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**15.85 (INR Fifteen Crore and Eighty-Five Lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of ARCL Organics Limited (AOL) continue to derive comfort from its long track record of operations under experienced promoters, improvement in scale of operations in FY24 [FY refers to the period from April 1 to March 31] and satisfactory financial risk profile of the company. Further, the company is expected to maintain healthy revenue growth in the near term with stabilization of enhanced capacities for Formaldehyde and Amino Powder. However, these rating strengths are partially offset by susceptibility of its profitability to volatility in raw material prices and exposure to competition from other players and forex risk.

Key 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
- Sustenance of the capital structure with improvement in the debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Deterioration in the capital structure with overall gearing above 1.5x and/or interest coverage to below 3x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

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 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 promoted Allied Resins & Chemicals Limited in 1983 which was subsequently merged with ARCL Organics Limited in 2011. Currently, Mr. Suraj Ratan Mundra is at the helm of affairs of the company with support from his two sons Mr. Mukesh Mundra and Mr. Rajesh Mundra who have been in the business for the last two decades.
- **Satisfactory financial risk profile**
  The financial risk profile of the company continued to remain satisfactory marked by its comfortable leverage ratios and net cash accruals leading to satisfactory debt service protection metrics. The overall gearing ratio remained comfortable at 0.46x as on March 31, 2024. Total indebtedness of the company also remained comfortable at 1.34x as on March 31, 2024 (1.13x as on March 31, 2023). Debt protection metrics as reflected by interest coverage ratio and Total debt to GCA stood comfortable at 4.70 times in FY24 and 1.93 year as on March 31, 2024 respectively. Infomerics Ratings expects the leverage and debt protection metrics of the company will remain comfortable in the near to medium term.
- **Consistent improvement in scale of operations albeit moderation in profit margin in FY24**
  The company's total operating income grew at a CAGR of ~16% over FY22-FY24. Total operating income in FY24 increased by ~16% on a y-o-y basis to Rs.190.72 crore mainly supported by higher sales volume of formaldehyde. Despite higher sales volume, revenue growth in FY24 was limited due to lower sales realisation amid reduction in raw material prices. In FY24, the company has witnessed reduction in average sales realisation per kg across all its product segment. The EBIDTA margin moderated from 10.89% in FY23 to 10.26% in FY24 due to higher carriage outward expense. Moreover, increase in scale of operations and start

of methanol import from October 2023, led to increase in working capital requirements during FY24. This additional working capital requirement was met through borrowings which resulted into higher debt level and consequently higher finance cost in FY24. Besides, higher depreciation cost also exerted pressure on net profit margin in FY24. Nevertheless, the company is expected to maintain healthy revenue growth momentum in the near term with stabilization of enhanced capacities for Formaldehyde and Amino Powder.

Key Rating Weaknesses

- **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.
- **Exposure to forex risk**
  The company is exposed to foreign currency-related risks due to its policy to keep exports unhedged. Exports account for ~30%-45% of the company's total revenue. However, the company keeps its unhedged exposure at a low level. Moreover, the major raw material of the company is a crude oil derivative thus susceptible to fluctuations in crude oil prices and forex rates. Also, imports account for ~25% of total purchase in FY24 which provides natural hedge and mitigates forex risk to an extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals as against its repayment obligations. The average working capital limit utilisation remained low at ~13% during the past 12 months ended May 2024 indicating comfortable liquidity buffer. Further, the company has satisfactory gearing headroom on the back of its comfortable capital structure.

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 chemicals such as Phenolics, Amino Resins, Melamine Resins and Formaldehyde. The products find their application in diversified industries such as in wood products industry as adhesives, textile industry, paper industry, healthcare industry etc. ARCL has the expertise to offer tailor-made solutions as per their client’s requirements as well. At present, ARCL has a manufacturing capacity for Amino Powder of 15695 MT, PF Powder of 4380 MT and Formaldehyde of 108040 MT in Rampur, Maheshtala of West Bengal. In FY24, the company enhanced its production capacity for formaldehyde and it remained the major revenue contributor for the company.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	165.06	190.72
EBITDA	17.97	19.57
PAT	11.78	10.70
Total Debt	20.13	28.87
Tangible Net Worth	53.46	64.01
Adjusted Tangible Net Worth	52.24	62.78
EBITDA Margin (%)	10.89	10.26
PAT Margin (%)	6.99	5.53
Overall Gearing Ratio (x)	0.39	0.46
Interest Coverage (x)	9.27	4.70

* *Classification as per Infomerics’ standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					Apr 26, 2023	-	Jan 31, 2022
1.	Cash Credit	LT	6.00	IVR BBB/ Stable	IVR BBB/ Stable	-	IVR BBB-/ Positive
2.	Letter of Credit	ST	9.85	IVR A3+	IVR A3+	-	IVR A3

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	6.00	IVR BBB/ Stable
Letter of Credit	-	-	-	-	9.85	IVR A3+
Total					**15.85**	

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-arcl-july24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.