



## Press Release

### ARCL Organics Ltd

January 31, 2022

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple / High / Complex)
Long Term Bank Facilities	6.00	IVR BBB- / Positive Outlook (IVR Triple B Minus with Positive Outlook)	Reaffirmed; outlook revised to Positive from Stable	Simple
Short Term Bank Facilities	10.25	IVR A3 (IVR A Three)	Reaffirmed	Simple
<b>Total</b>	<b>16.25</b> <b>(Rupee Sixteen crore and twenty five lakh only)</b>			

Details of Facilities are in Annexure 1

#### 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 with experienced promoters and established relationship with customers. The ratings also positively factor in improvement in financial risk profile with improvement in profitability, capital structure and debt protection metrics in FY21. However, these rating strengths are partially offset by its modest scale of operations, volatility in raw material prices and competition from other players and forex risk.

The revision in outlook to positive from stable reflects expected improvement in overall operating performance over near to medium term led by capex (funded by way of internal accruals and sale of land) towards expansion and capacity enhancement.

#### Key Rating Sensitivities:

##### Upward Factors



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- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- 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
- Deterioration in the debt protection metrics and capital structure with overall gearing above 1x
- 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 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.



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- **Improvement in financial risk profile with improvement in profitability, capital structure and debt protection metrics in FY21**

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 improved from 0.32 times as on March 31, 2020 to 0.13 times as on March 31, 2021. Moreover, the overall gearing improved from 0.50 times as on March 31, 2020 to 0.30 times as on March 31, 2021. 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 1.26x as on March 31, 2020 to 0.97x as on March 31, 2021. Besides, profitability metrics of the company improved significantly in FY21 with improvement in EBIDTA margin and PAT margin to 14.18% and 8.31% respectively as compared to 9.50% and 3.58% respectively in FY20 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 9.77 times and 0.86 year respectively in FY21 as compared to 3.11 times and 2.77 years respectively in FY20. DSCR also stood comfortable at 6.59 times in FY21. Infomerics expects the gearing and debt protection metrics of the company to remain comfortable in the medium term.

### Key Rating Weaknesses

- **Modest scale of operations**

The scale of operations of the company remains modest considering the long track record of operations. Total operating income in FY21 though improved by ~22% on a year-on-year basis, it continued to remain modest at ~ Rs. 87 crore. Further, in H1FY22 the company has achieved a total revenue of Rs. 60.17 crore. Infomerics expects going forward scale of operations to improve significantly aided by capex towards expansion and capacity enhancement.

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



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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.

- **Forex risk**

The company is exposed to foreign currency related risks due to its policy to keep exports unhedged. Exports account for ~35%-40% of company's total revenue. However, the company keeps its unhedged exposure at a low level. As on date, the unhedged exposure is ~Rs. 8 crore. 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 5-10% of total purchase which provides natural hedge and mitigates forex risk to an extent.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

**Liquidity – Strong**

The company has strong liquidity with satisfactory cash accruals vis-a-vis its debt repayment obligation during FY22-24. Further, the average cash credit utilisation of the company remained low at ~36% during the past 12 months ended September 2021 indicating sufficient liquidity cushion. The company has sufficient gearing headroom due to 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 PF Resin, Formaldehyde and Paraformaldehyde. The products are predominantly used in wood products industry as adhesives and specialty chemical manufacturing. The company has a manufacturing capacity for Amino Powder of 6000MT, Para Formaldehyde of 4200MT and Formaldehyde of 36000 MT. Its manufacturing plant is located in Rampur,



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Maheshtala 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)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	70.79	86.67
EBITDA	6.72	12.29
PAT	2.57	7.32
Total Debt	12.06	9.31
Tangible Net worth	23.98	31.29
EBITDA Margin (%)	9.50	14.18
PAT Margin (%)	3.58	8.31
Overall Gearing Ratio (x)	0.50	0.30

\*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information:

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facilities- Cash Credit	Long Term	6.00*	IVR BBB-/ Positive Outlook	IVR BBB-/ Stable Outlook (December 17, 2020)	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 A3 (December 17, 2020)	IVR A4+ (November 28, 2019)	-

\*Packing credit/Foreign bill discount/bill purchase of Rs. 5 crore are sublimit



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^Bank guarantee of Rs. 0.50 crore is a sublimit

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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-/ Positive Outlook



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Short Term Bank Facilities- LC (including proposed limits of Rs. 0.40 crore)	-	-	-	10.25^	IVR A3
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\*Packing credit/Foreign bill discount/bill purchase of Rs. 5 crore are sublimit

^Bank guarantee of Rs. 0.50 crore is a sublimit

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/arcl-organics-lenders-jan22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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](http://www.infomerics.com).