Oriental Carbon and Chemicals Limited

Instrument	Amount (Rs. Crore)	Rating Action
Fixed Deposit Programme	5.00	MA (Stable) reaffirmed
Term Loans	86.00 (enhanced from 53.00)	[ICRA]A(Stable) reaffirmed
Fund-Based Limits	60.00*	[ICRA]A(stable) reaffirmed
Non-Fund Based Limits	14.00	[ICRA]A1 reaffirmed
Unallocated+	0.00 (reduced from 33.00)	-

**The long term fund based limits are fully interchangeable with the short term fund based limits which are rated at [ICRA]A1*
+ Unallocated limits have been shifted to term loans and thus unallocated limits are reduced to zero

The ratings for the Rs. 160.00 crore[1] bank facilities of Oriental Carbon & Chemicals Limited (OCCL) have been reaffirmed at [ICRA]A (pronounced ICRA A) on the long-term scale and at [ICRA]A1 (pronounced ICRA A one) on the short-term scale. The rating of the Rs. 5 crore Fixed Deposit programme of OCCL has been reaffirmed at MA (pronounced M A). The outlook on the long-term bank lines rating and medium-term fixed deposit rating is 'Stable'.[2]

The reaffirmation of the long-term rating reflects the favourable domestic demand outlook for Insoluble Sulphur (IS), the company's major product, driven by increasing radialisation of the domestic tyre market besides modest outlook on overseas demand. The reaffirmation also factors in improvement in the capital structure and debt protection metrics over the past one year following lower debt levels and healthy cash generation. The ratings continue to factor in the experienced management and long track record of OCCL in the business of producing IS, its established market position in the domestic industry by virtue of being the leading domestic supplier of IS and the strong customer base comprising major tyre manufacturers across the world and long-term relations with them.

The ratings, however, are constrained by risks associated with the demand being derived primarily from the automotive segment; threat of competition from Chinese players partly mitigated by high entry barriers as well as challenge of maintaining high quality of products and high standards of health and safety at plants; vulnerability to foreign exchange rate movements and high working capital intensity. The ratings also take into account the project risk emanating from large debt-funded capital expenditure being incurred by OCCL to expand capacity of IS at its Mundra plant. The ratings of OCCL also factor in ~Rs. 30 crore corporate guarantee (though the liability against the corporate guarantee declined to Rs 11.92 crore at the end of FY2016) extended to its subsidiary Schrader Duncan Limited [SDL – rated [ICRA]A (SO) (Stable) and [ICRA]A1 (SO)], which has reported weak performance over the last few years on account of decline in revenues and the losses incurred in the automotive business. However, the pneumatic products segment of SDL witnessed improvement in profitability during FY2016. SDL has discontinued its tube valve business during FY2016 as it was a loss making unit.

IS contributed ~92% of OCCL's revenues in FY2016 (93% in FY2016) while Sulphuric Acid & Oleum contributed rest 8%. Strong domestic demand growth for IS during FY2016 was partially offset by weakness in export demand leading to marginal decline in sales turnover. Accordingly the capacity utilization remained unchanged from FY2015 levels. OCCL derives ~68% (FY2016) of its revenues from exports with Europe being the major market. However, the company is expanding its overseas presence in large markets like China and the US. The company also enjoys a dominant position in the domestic tyre industry with a significant market share gained during its long track record. Closely guarded technology, capital-intensive nature of the business along with long gestation period of about two years involving quality checks and approvals from the tyre manufacturers for commercial production act as entry barriers for other players in the industry. OCCL is

[1] 100 lakh = 1 crore = 10 million
2 For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

focusing on increasing the share of value-added grades of Insoluble Sulphur to consolidate its position in the market as a premium IS supplier.

During FY2016, the standalone operating income of the company declined nearly 3% due to decline in realisations of IS in line with lower raw material prices and marginal decline in sales volumes. However, the operating profits of the company increased by 12.3% to Rs 83.0 crores in FY2016 from Rs 73.9 crore in FY2015 primarily due to decline in raw material costs and power costs. In line with operating profit and lower interest driven by repayment of term loan, the net profit of OCCL increased to Rs 53.0 crore in FY2016 from Rs 51.3 crore in FY2015 despite increase in depreciation charges due to adoption of component accounting. Fall in total debt and increase in networth driven by high accretion resulted in a decline in gearing to 0.30 time as on March 31, 2016 from 0.43 time as on March 31, 2015. Debt protection metrics of the company remained healthy as reflected by interest coverage of 13.08 times and Total Debt/OPBDITA of 1.04 times during FY2016.

The company is also undertaking a capacity expansion of 11000 MTPA in two phases i.e. 5500 MTPA by the end of FY2017 and 5500 MTPA in the next phase. The capex plan also included construction of a coal fired boiler at Mundra SEZ plant which was commissioned in April 2016. The total capital outlay would be Rs 159 crore for the expansion plan of which ~Rs 40 crore was incurred during FY2016, while the balance would be spent over FY2017-FY2018.

During FY2016, the operating income of SDL declined to Rs 63.5 crore from Rs 64.3 crore in FY2015. However, operating profits improved to Rs 0.57 crore in FY2016 vis-à-vis a loss of Rs 3.07 crore in FY2015 due to reduction in losses incurred by the automotive business segment and improvement in profits of the pneumatic products segment. SDL's total debt during FY2016 comprised of only short term loans of Rs 18.58 crore vis-à-vis Rs 18.49 crore of total debt during FY2016. The operating profitability of SDL is expected to improve going forward as the company discontinued its tube valve business (part of the automotive business segment) during FY2016 as it was a loss making unit and prospects of improvement in profitability were also weak.

The production and sales volumes of OCCL are expected to increase going forward on account of healthy demand prospects from the existing and new overseas markets and higher domestic demand driven by increasing trend of radialisation of tyres. Higher-than-anticipated debt funded capex or substantial fall in profitability leading to significant deterioration in debt protection metrics would be the key rating sensitivities. The ability of the company to maintain healthy utilisation levels from the existing and upcoming capacity will continue to remain a key rating sensitivity .Further, ICRA would also keep monitoring the operational performance of SDL and its impact on consolidated financials.

Company Profile

Oriental Carbon & Chemicals (OCCL) was incorporated in 1978 as Dharuhera Chemicals Limited (DCL) and in 1983 DCL was merged with Oriental Carbon Limited (OCL), a group company engaged in the production of Carbon Black, to form OCCL. In 1994, OCCL had set-up a manufacturing facility for the production of Insoluble Sulphur, which is now the flagship product of the company as the company sold carbon black unit to Continental Carbon Company in 2000. OCCL currently has three production units: two at Dharuhera Industrial Unit in Haryana and one at Mundra SEZ in Gujarat. The company is currently engaged in the production of Insoluble Sulphur, Sulphuric Acid and Oleum. The production capacity of OCCL stands at 23,000 metric tonnes per annum (MTPA) for Insoluble Sulphur (IS), 46,200 MTPA for Sulphuric Acid & 13,750 MTPA for Oleum. OCCL's shareholding pattern as on June 30, 2016 constituted 51.04% with promoters (primarily JP Goenka family and group companies), 27.24% with Indian public, 6.77% with Mutual Funds & Financial Institutions and remaining with others. OCCL also has majority stakes (50.01%) in Schrader Duncan Limited (SDL).

Recent Results

As per consolidated audited results, OCCL posted a net profit of Rs. 46.06 crore on an operating income of Rs. 338.13 crore in FY2016 as against a net profit of Rs. 45.28 crore on an operating income of Rs. 347.51 crore in FY2015.

July 2016

For further details please contact:
Analyst Contacts:
Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500