

August 14, 2024^(Revised)

Oriental Carbon & Chemicals Limited: Ratings downgraded to [ICRA]A- (Stable)/[ICRA]A2+; removed from rating watch with developing implication; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	110.00	-	-
Long term/Short term – Fund-based limits	110.00	-	-
Long term/Short term – Interchangeable	(110.00)	-	-
Short term – Non-fund based limits	34.00	-	-
Long term/Short-term fund-based/Non-fund based limits	-	50.00	[ICRA]A- (Stable)/[ICRA]A2+ downgraded from [ICRA]AA-/[ICRA]A1+ and removed from rating watch with developing implication; Stable outlook assigned
Total	254.00	50.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the ratings of Oriental Carbon & Chemicals Ltd factors in the business restructuring at the group level, wherein the chemicals business was demerged into OCCL Ltd., and the investments (including the one in Duncan Engineering Limited) remained with Oriental Carbon & Chemicals Ltd. For the rating of Oriental Carbon & Chemicals Ltd, ICRA has taken consolidated the financials of Oriental Carbon & Chemicals Ltd with DEL.

The ratings also factor in the extensive experience of Duncan Engineering Limited (DEL), the subsidiary company of Oriental Carbon & Chemicals Ltd, in the pneumatic products industry and its established relationships with various customers and suppliers. Further, the ratings factor in the comfortable debt protection metrics, supported by the company's adequate liquidity position. ICRA also notes that Oriental Carbon & Chemicals Ltd has invested a sizeable amount of money in liquid mutual funds and alternate investment funds and the returns from the same remain susceptible to the performance of the underlying assets. The ratings are, however, constrained by the small scale of operations, coupled with the limited bargaining power and stiff competition from large players. The ratings are further constrained by the vulnerability of profitability to the volatility in key raw material (steel and special alloys) prices.

The Stable outlook factors in ICRA's expectation of a stable cash generation amid the limited capex plans or debt repayments, and expectations of DEL's credit profile to remain healthy, going forward. With low levels of debt, the financial leverage (gross debt/OPBDITA) was almost nil by the end of FY2024 and is expected to continue to be comfortable, going forward. The interest coverage ratio was 87.5 times in FY2024 and is expected to improve further on expectations of stable operating profits and declining interest costs.

Key rating drivers and their description

Credit strengths

Healthy financial risk profile with strong debt protection metrics – Oriental Carbon & Chemicals Ltd's capitalisation and coverage indicators have improved significantly over the last few years, despite the significant capex, because of the healthy cash generation and low reliance on debt. The net debt levels were at Rs. 35.8 crore at the end of FY2024, leading to low net financial leverage (net debt/OPBDITA) of 0.4 times at the end of FY2024. The interest coverage ratio improved to 8.4 times in FY2024 vis-à-vis 7.3 times in FY2023. ICRA expects the company's credit metrics to improve further, given the healthy cash generation and limited capex planned, going forward.

Stable performance of subsidiary – Duncan Engineering (DEL rated [ICRA]BBB+/ [ICRA]A2, earlier known as Schrader Duncan), incorporated in 1962, was promoted as a joint venture between Schrader Bridgeport International (SB Intl, a wholly-owned subsidiary of Tomkins Plc) and the Duncan Group (managed by the Goenka family, which is the promoter Group of OCCL). DEL manufactures pneumatic products such as air cylinders, valves and accessories. OCCL holds a 50.01% stake in DEL, making it a subsidiary of OCCL. Earlier, OCCL had provided corporate guarantees, backing the bank lines of DEL, but these were withdrawn in FY2021.

DEL's operating income moderated to Rs. 65.10 crore in FY2024 from Rs. 70.1 crore in FY2023. The operating profit also moderated at Rs. 8.9 crore in FY2024 against Rs. 13.2 crore in FY2023 in line with the moderation in operating income. The entity had a long-term debt of around Rs. 0.4 crore by the end of FY2024 and around Rs. 31.4 crore of cash and other investments.

Credit challenges

Small scale of operations with limited bargaining power - DEL deals only in pneumatic products used to control air pressure in various machines. The scale of operations is very limited and, hence, it does not have much bargaining power with suppliers and customers.

Competition from large established players - The company faces stiff competition from domestic and international players such as Rotork, Janatics, FMC, Parker etc. However, competitive pricing and good product quality enable DEL to attract repeat orders from its customers.

Returns from investments subject to market forces and performance of underlying assets – Oriental Carbon & Chemicals Ltd's returns from investments are influenced by market forces and the performance of the underlying assets. These factors determine the value of the investment portfolio, resulting in varying returns based on market conditions, economic factors, and the specific performance of the assets held. Consequently, the returns may be unpredictable and can report gains or losses depending on the market environment and asset performance.

Liquidity position: Adequate

Oriental Carbon & Chemicals Ltd's liquidity is adequate, backed by unencumbered cash balances on a consolidated level. Moreover, at a standalone level, the company holds investments in liquid mutual funds as well as alternate investment funds.

Rating sensitivities

Positive factors – The ratings may be revised upwards if there is a significant increase in the company's consolidated scale of operations and operating profits on a sustained basis while maintaining the liquidity position.

Negative factors – The ratings may be downgraded if there is any significant deterioration in the company's consolidated revenue generation and profitability. Any sizeable losses in the investment portfolio can also impact the ratings negatively.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Investment Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the company

About the company

Oriental Carbon & Chemicals (OCCL) was incorporated in 1978 as Dharuhera Chemicals Limited (DCL). 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 to produce insoluble sulphur, which became its flagship product as the company sold the carbon black unit to Continental Carbon Company in 2000. The company has three production units: two at Dharuhera Industrial Unit in Haryana and one at Mundra SEZ in Gujarat. The company produces insoluble sulphur, sulphuric acid and oleum.

The company undertook a business restructuring exercise under which the chemicals business was demerged into OCCL Limited, leaving the investment business and Duncan Engineering Limited as a subsidiary with Oriental Carbon & Chemicals Limited.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	528.9	463.7
PAT	53.6	49.6
OPBDIT/OI	20.1%	22.3%
PAT/OI	10.1%	10.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.6	1.3
Interest coverage (times)	8.2	9.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore;

*These are consolidated financials not accounting for the demerger/business restructuring exercise. The estimated financials for Oriental Carbon & Chemicals Limited post the demerger are as below:

Estimated Oriental Carbon Consol post demerger	FY2024
Operating income	77.9
PAT	11.1
OPBDIT/OI	19.6%
PAT/OI	14.2%
Total outside liabilities/Tangible net worth (times)	0.04
Total debt/OPBDIT (times)	0.0
Interest coverage (times)	137.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	-	-	18-Jul-23	[ICRA]AA-; ratings watch with developing implications	12-Aug-22	[ICRA]AA-&	30-Jul-21	[ICRA]AA-(Stable)
Long term/Short term fund-based limits	Long Term/Short term	-	-	18-Jul-23	[ICRA]AA-; ratings watch with developing implications/ [ICRA]A1+; ratings watch with developing implications	12-Aug-22	[ICRA]AA-&/ [ICRA]A1+&	30-Jul-21	[ICRA]AA-(Stable)/ [ICRA]A1+
Interchangeable#	Long Term/Short term	-	-	18-Jul-23	[ICRA]AA-; ratings watch with developing implications / [ICRA]A1+; ratings watch with developing implications	-	[ICRA]AA-&/ [ICRA]A1+&	30-Jul-21	[ICRA]AA-(Stable)/ [ICRA]A1+
Non-fund based limits	Short Term	-	-	18-Jul-23	[ICRA]A1+; ratings watch with developing implications	-	[ICRA]A1+&	30-Jul-21	[ICRA]A1+
Fund-based/Non-fund based limits	Long Term/Short term	50.00	[ICRA]A-(stable)/[ICRA]A2+	-	-	-	-	-	-
Fixed deposit programme	Medium term	-	-	-	-	-	-	-	MAA (Stable) Withdrawn

Long term/Short term interchangeable with long term/short term fund-based limits; &: Rating on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term fund-based/Non-fund based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund-based limits	NA	NA	NA	50.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Duncan Engineering Limited	50.05%	Full Consolidation

Source: Company

Corrigendum:

Document dated August 14, 2024 has been corrected with revisions as detailed below:

Revision on page 3 – Table on financials of the demerged entity added

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