

July 29, 2020

Oswal Cable Products Pvt. Ltd.: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	2.25	[ICRA]BBB- (Stable); assigned
Short-term Non-fund Based	14.75	[ICRA]A3; assigned
Total	17.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of Oswal Cable Products (OCP) and Oswal Cable Products Pvt. Ltd. (OCPPL); together referred to as the Oswal Group. This is because both the entities have common promoters and share operational synergies.

The assigned ratings factor in the long track record and experience of the promoters in the polymer distribution business and their established relationships with various customers and suppliers. Further, the ratings take into account the Oswal Group's low external debt levels. Promoter loans account for the bulk of the company's debt. Hence, while the total debt/OPBIDTA and TOL/TNW were at elevated levels on March 31, 2020, after adjusting for the unsecured loans, the ratios remained at comfortable levels. ICRA also takes note of the Group's comfortable liquidity position as reflected in the low utilisation of its working capital limits and cash and liquid investments.

However, the ratings are constrained by the Group's moderate scale of operations and decline in operating profit margins in the past two years, partly on account of increased rent and salary expenses. The ratings are also constrained by the exposure of the Group's margins to fluctuations in commodity prices and foreign exchange rates. Moreover, on account of the Covid-19 pandemic, the Group is expected to report a decline in operating income (OI) in the current year along with pressure on margins. The ability of the Group to sustain and grow margins while maintaining a comfortable liquidity profile will be a key monitorable.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will continue to benefit from its established track record of operations and the experience of its promoters.

Key rating drivers and their description

Credit strengths

Established track record of promoters in polymer sector – The promoters of the entity have been in the business of polymer, plastic and rubber raw materials since 1970. This experience helps them in securing new orders and reaching out to new customers.

Established relationship with customers and suppliers; timely receivables and no bad debts – The top five customers and suppliers of the Group contributed to 16% and 30%, respectively of the total sales and purchases in FY2020, reflecting low customer- and supplier-concentration risk. Due to the promoters' extensive experience and long track record they have been able to build a strong relationship with the stakeholders and receive payments in a timely manner.

Credit challenges

Low operating margin – The operating margin of the Group was low at 3.56% in FY2020 due to the low value-additive nature of the business. Moreover, the margins declined in the past two years.

Competition from smaller and unorganised players – The Group faces stiff competition from other unorganised players in the industry. On account of low entry barriers there are numerous entities in the polymer distribution business.

Margins susceptible to fluctuations in raw material prices and foreign exchange rates – The Group’s profitability is susceptible to volatility in polymer prices, which in turn are linked to crude price movements. The established sourcing and hedging methodologies adopted by the Group partially mitigate the risk of any adverse impact on the Group’s profitability, demonstrated by largely stable profit margins, despite wide fluctuations in commodity prices and foreign exchange rates.

Liquidity position: Adequate

The Group’s liquidity position is **adequate** with positive cash flow from operations and free cash and liquid investments of Rs. 8.95 crore as on March 2020, with no long-term repayments over the next three years. Moreover, the fund-based limits are almost fully unutilised. The current ratio also stood healthy at 3.82 times in FY2020.

Rating sensitivities

Positive triggers: The ratings may be revised upwards in case the company demonstrates a sustained improvement in OI coupled with an improvement in operating margins, resulting in an improved liquidity profile. ROCE above 16% on a sustained basis can lead to an upgrade.

Negative triggers: Downward pressure on the company’s rating could arise on account of lower-than-expected cash flow generation or a significant deterioration in liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of Oswal Cable Products (OCP) and Oswal Cable Products Private Limited (OCPPL); together referred to as the Oswal Cable Group; this is because both the entities have common promoters and share operational synergies

About the Group

Oswal Cable Products Pvt. Ltd. (OCCPL) was incorporated in August 2018 and is a Delhi-based distributor of PVC resins, chemicals and other additives. The partnership firm, Oswal Cable Products, was incorporated in 1970 with similar operations. The company sources the material from domestic suppliers and also imports from South-East Asia, the US and Europe, for sale in the domestic market.

The promoters of the Group are the Daga family, who have been in the plastics business for a long time. The previous generations of the family were engaged in manufacturing PVC pipes and allied businesses in Cooch Behar district in West Bengal. At present, the third generation of the family has business setups in Delhi, Bangalore, Chennai and Bikaner.

Key financial indicators (audited/provisional)

	FY2019 (audited)	FY2020 (provisional)
Operating Income (Rs. crore)	134.16	152.88
PAT (Rs. crore)	3.88	2.29
OPBDIT/OI (%)	5.40%	3.56%
PAT/OI (%)	2.89%	1.50%
Total Outside Liabilities/Tangible Net Worth (times)	5.24	6.75
Total Debt/OPBDIT (times)	4.37	6.97
Interest Coverage (times)	2.31	1.78

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					29-Jul-2020				
1	Cash Credit	Long Term	2.25	-	[ICRA]BBB- (Stable)	-	-	-	-
2	Non-fund Based	Short Term	14.75	-	[ICRA]A3	-	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	2.25	[ICRA]BBB- (Stable)
NA	Non-fund Based	NA	NA	NA	14.75	[ICRA]A3

Source: OCPPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Oswal Cable Products	100%	Full

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