

August 14, 2024

OCCL Ltd: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Term loan	47.00	[ICRA]AA- (Stable); assigned
Long term - Fund based - Working capital	110.00	[ICRA]AA- (Stable); assigned
Short term – Non-fund based limits	34.00	[ICRA]A1+; assigned
Total	191.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA's rating action on the bank facilities of OCCL Ltd. (earlier Oriental Carbon & Chemicals Limited) factors in its long and established track in manufacturing insoluble sulphur and its favourable position in the domestic and global markets. The ratings also consider its robust financial risk profile, characterised by healthy cash generation from operations, and strong liquidity position and debt protection metrics. The ratings also factor in a steady growth outlook for the tyre industry, which is the key consumer of insoluble sulphur, in the medium to long term.

The margins had come under pressure in FY2022 and FY2023 because of a steep hike in raw material prices and elevated freight and power costs. With the moderation in raw material prices, the margins improved to 23.4% in FY2024 from 20.3% in FY2023, though these remain lower than the historical levels. The uncertainties brought in by the geo-political situation in FY2022 led to a significant spike in raw material prices, while there was a lag in passing on the price increase to the customers. While there may be some cost pressures pertaining to business restructuring in FY2025, the profitability is largely expected to be in line with the FY2024 levels, with expectations of improvement thereafter.

OCCL Ltd.'s revenue moderated in FY2024 on account of lower realisations. The realisations moderated by ~12.5% YoY in FY2024 with the fall in the price of sulphur. The volume growth also moderated in FY2024 owing to delay in acquiring new customers. Going forward, however, the volumes are expected to witness growth.

This entity has been formed post the business restructuring at the group level, wherein the chemicals business was demerged into OCCL Ltd. and the investments (including the one in Duncan) remained with Oriental Carbon & Chemicals Limited. While a large portion of the investments was hived off to Oriental Carbon & Chemicals Limited (the investment arm of the Group), the liquidity at OCCL Ltd. remains strong even as the company prepaid a sizeable portion of the long-term debt in Q1 FY2025, marked by healthy cash generation from business, limited debt repayments in the near term and sizeable undrawn limits. The debt protection metrics also remained comfortable, reflected in a gearing of 0.2 times at the end of FY2024 vis-à-vis 0.3 times at the end of FY2023, total debt/OPBDITA at 1.5 times and interest coverage of 8.4 times for FY2024.

The ratings, however, are constrained by the concentration of the revenues on a single product i.e. insoluble sulphur which is mostly supplied to the automotive sector. The threat of competition, especially from Chinese players, can be partly mitigated by maintaining superior product quality and high standards of health and safety at the plants. The profitability also remains vulnerable to foreign exchange rate movements and fluctuations in raw material prices.

The Stable outlook on the rating factors in ICRA's expectation of healthy cash flow generation, given the company's market leadership position in the Indian insoluble sulphur market.

Key rating drivers and their description

Credit strengths

Well-experienced management and long track record of OCCL Ltd. in producing insoluble sulphur (IS) – OCCL Ltd. (earlier Oriental Carbon & Chemicals Limited) has a long and established track record in the chemical industry. It started operations as Dharuhera Chemicals Limited in 1978 and was later merged with Oriental Carbon Limited in 1984 to form Oriental Carbon and Chemicals Limited and the chemicals business has been recently demerged into OCCL Ltd. It started producing insoluble sulphur in 1994 with a capacity of 3,000 MTPA and has since then ramped up its capacity to 39,500 MTPA.

Dominant market position in domestic industry; preferred supplier to major tyre companies across the world – OCCL Ltd. has a dominant position in the domestic market as the sole manufacturer of IS in India. It has also been able to position itself as the preferred/second preferred supplier to most global tyre makers. Hence, it continues to retain its leadership position in the domestic market with a 55-60% share and around 10% share in the global market.

Healthy financial risk profile with comfortable margins and strong debt protection metrics – OCCL'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 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 plans, going forward.

Credit challenges

Competition from Chinese players - Chinese manufacturers are usually able to offer insoluble sulphur at a lower cost and are a threat to players like OCCL. However, this risk is partly mitigated by better quality and the environmental, health and safety standards (EHS). Many large tyre manufacturers are wary of procuring from Chinese players due to apprehensions over inconsistent quality levels and lower EHS standards.

Vulnerable to forex rate movements, partly mitigated by hedging policy - OCCL derives a significant share of its revenues from export sales, exposing the company to foreign exchange fluctuations. However, the risk is partially mitigated by the company's policy to hedge nearly 75% of its net exposure for the forward six months using forward contracts.

Profitability vulnerable to increase in raw material prices – Sulphur and coating oil are the major raw materials for manufacturing insoluble sulphur. Sulphur prices have been volatile over the years, which exposes the company to raw material price risk. The risk is, however, largely mitigated by the periodic price revisions with the end users though there can be a lag in passing on the variation raw material prices, as seen in FY2022 and FY2023 when the margins were impacted.

Liquidity position: Strong

OCCL's liquidity is strong, backed by healthy accruals as well as limited debt repayments in the near to medium term. The company prepaid some portion of its long-term debt and, thus, the cash levels remain relatively low. However, the liquidity is supported by unutilised fund-based limits vis-à-vis the capex requirement and the debt repayments in the near to medium term along with healthy cash generation from business.

Rating sensitivities

Positive factors – OCCL's rating may be revised upwards if there is a significant increase in the scale of operations along with a sustained healthy profitability and liquidity position.

Negative factors – The rating may be downgraded if there is a significant contraction in the scale of operations or pressure on the margins for a sustained period, resulting in weak cash accruals.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Chemicals Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Oriental Carbon & Chemicals Ltd 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 Oriental Carbon & Chemicals Ltd. In 1994, Oriental Carbon & Chemicals Ltd 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. Further, 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. OCCL Ltd 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 Ltd stands at 39,500 metric tonnes per annum (MTPA) for Insoluble Sulphur (IS), 88,200 MTPA for Sulphuric Acid & Oleum.

Key financial indicators (audited)

Standalone	FY2023	FY2024*
Operating income	458.8	397.0
PAT	43.7	43.0
OPBDIT/OI	20.3%	23.4%
PAT/OI	9.5%	10.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	1.8	1.5
Interest coverage (times)	7.3	8.4

Source: Company, ICRA Research; * Numbers after demerger; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-Term	47.00	Aug 14, 2024	[ICRA]AA-(Stable)	-	-	-	-	-	-
Fund-based - Working capital	Long-Term	110.00	Aug 14, 2024	[ICRA]AA-(Stable)	-	-	-	-	-	-
Non-fund based limits	Short-Term	34.00	Aug 14, 2024	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Term loan	Simple
Long term- Fund based - Working capital	Simple
Short term – Non-fund based limits	Very 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	Long term – Fund-based - Term loan	FY2018- FY2023	7.75%- 9.50%	FY2024- FY2028	47.00	[ICRA]AA- (Stable)
NA	Long term – Fund-based - Working capital	NA	NA	NA	110.00	[ICRA]AA- (Stable)
NA	Short term – Non-fund based limits	NA	NA	NA	34.00	[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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