

January 07, 2022

Oswal Cable Products Pvt. Ltd.: Ratings upgraded from [ICRA]BBB- (Stable)/[ICRA]A3 to [ICRA]BBB (Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based/Cash Credit limits	2.25	2.25	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Short-term: Non-fund based	14.75	14.75	[ICRA]A3+; upgraded from [ICRA]A3
Total	17.00	17.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in the healthy improvement in Oswal Cable Products Pvt. Ltd.'s (OCPPL) revenues and net cash accruals in FY2021 and FY2022YTD, and its continuing debt-free status (excluding unsecured loans from promoters). ICRA expects the company to generate comfortable accruals going forward, while maintaining comfortable capital structure in absence of any sizeable debt-funded capex. The ratings continue to derive comfort from its experienced promoters with an established track record of operations in the trading of polymers and additives. ICRA, further, notes that OCPPL's clientele has remained diversified with the top five customers contributing 13%, 11% and 7% of the sales in FY2020, FY2021 and H1 FY2022, respectively, reflecting its low client concentration risk. Additionally, the long association with its customers has ensured retention of its top customers. Moreover, OCPPL offers a variety of products with applications across multiple sectors.

The ratings, however, are constrained by OCPPL's moderate scale of operations with an operating income (OI) of Rs. 169 crore in FY2021 and Rs. 144 crore in 8M FY2022. The ratings factor in the exposure of the company's profitability to raw material price fluctuations and intense competition in the industry, which limits its pricing flexibility. The ratings are constrained by the exposure of OCPPL's margins to forex fluctuation risk, in absence of a strong hedging policy, as a significant portion of its total material requirements are met through imports. Furthermore, any sizeable non-core real estate investments in the medium term, adversely impacting its liquidity position, will remain a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that OCPPL will benefit from the extensive experience and long track record of its promoters in the polymer products trading industry, its established relationship with customers, along with its comfortable leverage and debt protection metrics.

Key rating drivers and their description

Credit strengths

Improvement in scale and profitability in FY2021, along with comfortable capital structure – OCPPL has witnessed an expansion in its scale and profitability in FY2021. Its OI grew by 11%, to Rs. 169 crore from Rs. 153 crore in FY2020 and the operating profit margin increased to 9.19% from 3.90% during this period, which led to improved cash accruals. During 8M FY2022, the company reported a turnover of Rs. 144 crore, which is expected to support healthy revenue growth in FY2022.

OCPPL's capital structure remained comfortable owing to zero external debt levels as on March 31, 2021 and November 30, 2021. Its working capital requirements are primarily supported by unsecured loans from directors and relatives. Nevertheless,

any investment in non-core assets or withdrawal of the loans by promoters, which significantly impacts the liquidity or leverage position, will remain a key sensitivity.

Experienced promoters and established track record of operations – OCPPL’s promoters have been involved in the trading business of polymer, plastic and rubber raw materials since 1970, operating through Oswal Cable Products (the operations of which then shifted to OCPPL). It has an established market position with a strong dealership network and three distribution centres. The promoters’ long presence in the industry have aided the company to establish strong relationships with suppliers and customers across multiple sectors, supporting its business growth over the years.

Well-diversified clientele and product portfolio with wide application across multiple sectors – OCPPL’s clientele has remained diversified with top five customers contributing to 13%, 11% and 7% of the sales in FY2020, FY2021 and H1 FY2022, respectively, reflecting its low client concentration risk. Additionally, the long association with its customers has ensured retention of its top customers. Further, OCPPL offers a variety of products used across multiple sectors, including poly vinyl chloride (PVC) based pipes and fittings, footwear, interior decorations, doors and floorings, electrical engineering, cold storage, cable insulation, office furniture and many others. The wide range of product applications result in low dependence on any one industry for sales of its products.

Credit challenges

Moderate scale of operations – OCPPL’s scale of operations remains moderate with an OI of Rs. 169 crore in FY2021 and Rs. 144 crore in 8M FY2022. The moderate scale exposes the company to the risk of business volatility or downturn.

Exposure to raw material price fluctuations and intense competition in industry – OCPPL’s operating margins are significantly influenced by the price fluctuations in PVC resin, which is a crude oil derivative. Any adverse movement in the prices of key raw materials (PVC resin, plasticisers) may have a negative impact on its margins.

Also, a large part of the polymer trading industry comprises numerous small unorganised players, primarily catering to local demand. Further, low entry barriers and limited value addition result in high fragmentation in the local industry. These factors limit OCPPL’s pricing flexibility and bargaining power with the customers.

Margins exposed to exchange rate fluctuations – OCPPL meets a significant portion of its total material requirements through imports. The imports comprised 35% of the overall raw material purchased in FY2021. Thus, its margins are exposed to the forex fluctuation risk, in absence of any formal hedging mechanism, in case of adverse movements in foreign currency rates.

Liquidity position: Adequate

The company’s liquidity profile is adequate, marked by healthy cash accruals, absence of any long-term debt and conservative approach towards capex. Its working capital requirements are met via internal accruals, along with unsecured loans from promoters and relatives. The liquidity is further supported by undrawn fund-based limit of Rs. 2.25 crore, timely collection of receivables and adequate cash and bank balance of Rs. 4 crore as on November 30, 2021. Any sizeable non-core real estate investments in the medium term, adversely impacting its liquidity position, will remain a key rating sensitivity.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if OCPPL demonstrates a significant improvement in its scale of operations and profitability, while maintaining a comfortable working capital cycle, debt protection metrics and adequate liquidity position on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if the company reports a significant decline in revenues or profitability, or if there is a weakening of the financial risk profile or liquidity position due to sizeable debt-funded capex/non-core investments, redemption of unsecured loans of promoters, or deterioration in the working capital cycle.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Delhi-based Oswal Cable Products Pvt. Ltd. was incorporated in June 2018 and it is a trader of PVC resins, chemicals and other additives. The company's promoters were earlier operating through Oswal Cable Products (OCP), which was incorporated in 1970, for similar operation. In FY2020, the complete business of the partnership firm was shifted to the private limited company. OCPPL stocks and trades in polymers sourced from domestic suppliers as well as imports from Singapore, Taiwan, Thailand, South Korea, USA, Malaysia, etc.

Key financial indicators

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	153.03	169.30
PAT (Rs. crore)	2.88	9.32
OPBDIT/OI (%)	3.90%	9.19%
PAT/OI (%)	1.88%	5.51%
Total Outside Liabilities/Tangible Net Worth (times)	11.71	4.61
Total Debt/OPBDIT (times)	6.29	2.51
Interest Coverage (times)	1.96	3.47

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 Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					January 7, 2022	February 12, 2021	July 29, 2020		
1	Fund-based/Cash Credit limits	Long-term	2.25	Nil	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	Non-fund based limits	Short-term	14.75	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund Based/Cash Credit limits	Simple
Short-term: Non-fund based	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term: Fund-based/Cash Credit limits	-	-	-	2.25	[ICRA]BBB (Stable)
NA	Short-term: Non-fund based	-	-	-	14.75	[ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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