

April 18, 2023

Oswal Cable Products Pvt. Ltd.: Rating reaffirmed

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); Reaffirmed
Short-term – Non-fund based	14.75	14.75	[ICRA] A3+; Reaffirmed
Total	17.00	17.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Oswal Cable Products Pvt. Ltd. (OCPPL) factors in the extensive experience of promoters with an established track record of operations in the trading of polymers and additives along with continuing debt-free status (excluding unsecured loans from promoters) and limited debt-funded capex going forward resulting in comfortable capital structure and coverage metrics. OCPPL has capex plans of around Rs. 3 crore in FY2024 which is expected to be funded through internal accruals. The rating also takes into consideration the wide variety of products offered by OCPPL with application across multiple sectors and the diversified clientele with top five customers contributing around 10% and 6% of the total sales in FY2022 and 11MFY2023 respectively, reflecting its low client concentration risk. Additionally, the long association with its customers has ensured the retention of its top customers.

The ratings are, however, constrained by the company's exposure to raw material price fluctuation risk and intense competition in the industry which limits the pricing flexibility of the company. OCPPL's scale of operations remain moderate with an estimated operating income in the range of Rs. 220-225 crore in FY2023 (PY: Rs. 224.8 crore). The ratings are further constrained by the exposure of OCPPL's margins to foreign exchange fluctuation risk due to the absence of a strong hedging policy, as about 50% of its total material requirements are met through imports. Further, any sizeable non-core investment in the medium term, adversely impacting the liquidity position of the company, will remain a key monitorable.

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

Key rating drivers and their description

Credit strengths

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 a partnership firm Oswal Cable Products (the operations of which were shifted to OCPPL). It has an established market position with a strong dealership network and three distribution centers. The promoters' have a long presence in the industry and have aided the company to establish strong relationships with suppliers and customers across multiple sectors, supporting its business growth over the years.

Comfortable capital structure and debt coverage metrics – The capital structure of the company remains comfortable owing to zero external debt levels as of March 2022 and December 2022. The working capital requirements of the company are primarily supported by the unsecured loans from directors. The company has no external debt and has only promoter debt of Rs 43.03 crore as of March 31, 2022 declining marginally to Rs 42.08 crore as of December 2022. The continuing debt-free status (excluding unsecured loans from promoters) and limited debt-funded capex going forward resulting in comfortable capital structure and coverage metrics.

Well-diversified clientele and product portfolio with wide application across multiple sectors – The company has a diversified client base with its top five customers contributing to 10% and 6% of the total sales in FY2022 and 11MFY2023, respectively, reflecting its low client concentration risk. Additionally, the long association with its customers has ensured the retention of its top customers. Further, OCPPL offers a wide variety of products which are 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 results in low dependence on any one industry for the sales of its products.

Credit challenges

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, plasticizers) may have a negative impact on its margins. Also, a large part of the polymer trading industry comprises numerous small unorganized 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 about 50% of the overall raw material purchased against LCs in FY2022 and the company has availed the sanction of around Rs 27 crore of non-fund-based limits of which around 53% are utilized for trailing twelve months ending March 2023. OCPPL’s margins are exposed to the forex fluctuation risk, in the 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, supported by undrawn fund-based limit of Rs. 4.0 crore and cash and bank balance of Rs. 1.7 crore as of December 2022. Further, the company has capex plans of about Rs 3 crore in FY2024 which are expected to be met through internal accruals. Its working capital requirements are met via unsecured loans from promoters and relatives along with internal accruals.

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 profitability, or if there is a weakening of working capital cycle and liquidity position due to sizeable debt-funded capex/noncore investments, redemption of unsecured loans of promoters.

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 (audited)

Archies Standalone	FY2021	FY2022
Operating income	169.29	224.78
PAT	9.32	8.51
OPBDIT/OI	9.18%	6.78%
PAT/OI	5.51%	3.79%
Total outside liabilities/Tangible net worth (times)	4.61	3.19
Total debt*/OPBDIT (times)	2.25	2.82
Interest coverage (times)	3.46	3.23

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT; Source: Company annual reports, ICRA Research. *Total debt = only promoter loan

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as of March 31, 2023	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
				April 18, 2023			January 07, 2022	February 12, 2021	July 29, 2020
1 Fund-based/Cash Credit Limits	Long Term	2.25	0.00	[ICRA] BBB (Stable)	-	[ICRA] BBB (Stable)	[ICRA] BBB-(Stable)	[ICRA] BBB-(Stable)	
2 Non-fund based limits	Short term	14.75	-	[ICRA] A3+	-	[ICRA] A3+	[ICRA] A3	[ICRA] A3	

Complexity level of the rated instrument

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 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/Cash credit limits	-	-	-	2.25	[ICRA] BBB (Stable)
NA	Short-term – Non-fund based	-	-	-	14.75	[ICRA] A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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