

## Rating Rationale

04 Mar 2020

### POCL Enterprises Limited

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 86.35 Crores of POCL Enterprises Limited (hereafter referred to as 'POEL' or 'the Company').**

#### Particulars:

Facility	Amount (Rs Cr)		Tenure	Rating*	
	Previous	Present		Previous (April 2019)	Present
<b>Fund Based</b>					
CC/ODBD/WCDL Term Loan	47.70 2.09	57.70 0.35	Long Term	BWR BBB-/Stable	<b>BWR BBB-/Stable Reaffirmed</b>
PC/PCFC/FDB	23.00	13.00	Short Term	BWR A3	<b>BWR A3 Reaffirmed</b>
<b>Non-fund Based</b>					
ILC/FLC/BC/BG	15.30	15.30			
<b>Total</b>	<b>88.09</b>	<b>86.35</b>	<b>Rupees Eighty Six Crores and Thirty Five Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings; Details of Bank loan facilities are provided in Annexure-I.

**Note:** Previously rated sanctioned term loan with HDFC Bank of Rs. 1.50 Crs. was not availed by the Company. Besides the above mentioned facilities, the Company had Rs. 3.48 Crs. of loan facility outstanding as on 31Mar2019 with another bank which is not rated by BWR.

#### Rating Action/Outlook

The ratings continue to factor the experience of the promoters in the metal and chemicals industry, longstanding relationships with reputed clientele and established market position. However, the ratings remain constrained by the decline in net sales and loss in FY19, subdued performance in 9MFY20, susceptibility of margins to fluctuation in raw material prices, vulnerability to global demand-supply, cyclical nature of end user industries and geopolitical scenario, foreign exchange rate fluctuations and working capital intensive operations.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. Brickwork Ratings believes that POCL Enterprises Limited's business and financial risk profile will be maintained over the medium term. The outlook may be revised to positive if there is improvement in net sales, profitability and capacity utilization on a sustained basis. The outlook may be revised to negative if there is decline in profitability and deterioration of gearing and debt coverage metrics, thereby weakening the financial risk profile of the Company.

## Key Rating Drivers

### Credit Strengths:

- **Experienced management:** The management is experienced in the metals and chemicals sector. The Company has established track record of over three decades in manufacturing and trading of metals, metal oxides and other chemicals. The reputation and extensive experience of the management among the industry peers is expected to support the Company operations.
- **Established operational track record:** The Company started with trading of chemicals in 1980s and gradually became an established player in the metals, metal oxides and plastic additives segment. The Company has been able to establish long and stable relationships with reputed clientele, both domestic and overseas. The clientele include J.K. Tyre & Industries Limited, Tractors & Farm Equipment Limited, Exide Industries Limited, Sun Ace Gulf Co Ltd, AL Dobowi LLC and PT Tri Mega Baterindo. The Company has been able to secure repeat orders from these clients.
- **Moderate financial performance:** Net sales marginally declined from Rs. 485.56 Crs. in FY18 to Rs. 453.73 Crs. in FY19 due to subdued global and domestic market conditions. Operating profit declined from Rs. 11.13 Crs. to Rs. 2.29 Crs. and net profit from Rs. 2.67 Crs. to loss of Rs. 6.43 Crs over the same period. However, the operating profit and net profit improved to Rs. 8.03 Crs. and Rs. 2.41 Crs. in 9MFY20. Total debt declined from Rs. 104.64 Crs. as on 31Mar2018 to Rs. 84.82 Crs. as on 31Mar2019, primarily due to decline in short term borrowings. Tangible net worth (TNW) declined from Rs.41.12 Crs. as on 31Mar2018 to Rs. 33.90 Crs. as on 31Mar2019 due to FY19 loss. However, gearing marginally improved from 2.54 times as on 31Mar2018 to 2.50 times as on 31Mar2019 due to decline in debt level over the period. ISCR and DSCR were low as on 31Mar2019 due to low operating and net profit. But the position improved in 9MFY20. Net and operating profit margins for FY19 were negative and 0.50% respectively which improved to 0.91% and 3.05% respectively in 9MFY20. The Company reported net sales of Rs. 263.26 Crs. in 9MFY20 against Rs. 349.90 Crs. in 9MFY19.

### Credit Concerns

- **Susceptibility of revenue to external factors:** The Company operates primarily in the commodity sector which is characterized by high volume, low margins and dependence of the revenue and profitability on global growth scenario, global demand-supply conditions, international trade environment, strength of dollar vs. other currencies and domestic growth scenario. The demand for the Company's products comes primarily from industries like auto and infrastructure which are cyclical in nature. So, any cyclical downturn in those sectors affects the revenue of the Company as observed in FY19 and 9MFY20. The Company's profitability is also affected by the other raw materials used in the Company's manufacturing process. The weakness of metal prices in FY19 and FY20 due to global growth concerns and the downturn of Indian economy have affected both domestic and overseas demand for the Company's products. The strategic shift of the Company in FY20 from high volume,



low margin business towards high margin business has also affected the revenue in 9MFY20. The aggravated global growth concerns as a fallout of spread of COVID-19 and ongoing US-China trade tensions may further weaken the global growth sentiment and consequently the metal prices and demand for other products for the Company.

- **Foreign exchange risk:** The Company gets ~30% of its revenue from exports. As the Company also imports raw materials, the export proceeds work as a natural hedge for the imports. The Company hedges the foreign exchange risk partially by entering into forward contracts with the banks.
- **Industry competition:** The Company faces strong competition from both organized and unorganized players. Often, the competition is based upon margin, and there is limited bargaining power with both suppliers and customers. Also, the commodity nature of the products limits the pricing power of the Company. However, the Company does not face customer and supplier concentration risk.

#### **Analytical Approach And Applicable Rating Criteria**

For arriving at its ratings, Brickwork Ratings has adopted a standalone approach and applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The Company does not have any subsidiary or associate.

#### **Rating Sensitivities**

##### **Positive:**

- Improvement in scale of operations and profitability on a sustained basis
- Prudent working capital management and improvement in capacity utilization

##### **Negative:**

- Decline in net sales and profitability
- Deterioration in gearing and debt coverage metrics due to increase in debt level
- Specific credit metrics that could result in negative rating action include Total Debt/TNW above 2.75 times and ISCR/DSCR weakening to below unity on a sustained basis.

#### **Liquidity Position: Adequate**

EBITDA for FY19 was insufficient to cover the interest & finance charges for FY19 which was eventually financed with accumulated internal accruals. Net cash accrual for FY19 was negative even as the CPLTD as on 31Mar2019 was low at Rs. 0.29 Cr. However, it improved to Rs. 3.51 Crs. for 9MFY20. The debt payment obligation for FY21 is Rs. 0.31 Cr. which is expected to be serviced through cash accruals. Working capital utilization for the past 6 months was ~70%. Cash & Cash Equivalents were moderate at Rs. 3.93 Crs. as on 30Sep2019. Cash conversion cycle is comfortably placed at 71 days as on 31Mar2019. Current Ratio is subdued at 1.02 times as on 31Mar2019 due to high short term borrowings. Thus, given the adequate net cash accruals, EBITDA and Cash Flow from Operating Activities, moderate Cash & Cash equivalents and comfortable cash conversion cycle, the liquidity position of the Company seems adequate.



### About the Company

POCL Enterprises Limited (POEL) was initially established on 20May1988 for trading of chemicals in Chennai. POEL is an ISO 9001:2015 company and specializes in manufacturing and trading of various metals, metal oxides and plastic additives. The Company has manufacturing units in Puducherry, Kakkalur – Thiruvallur, Maraimalai Nagar, Tamil Nadu. The Company's shares are listed on Bombay Stock Exchange Ltd. Exports contributed ~29% of total sales in FY19. Metals, metal oxides and plastic additives contributed ~40%, ~46% and ~14% of net sales in FY19.

Mr. Devkar Bansal and Mr. Sunil Kumar Bansal are the Managing Directors.

### Financial Performance

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Revenue	Rs. Cr.	485.56	453.73
EBITDA	Rs. Cr.	11.13	2.29
Net Profit	Rs. Cr.	2.67	(6.43)
Tangible Net Worth	Rs. Cr.	41.12	33.90
Total Debt : Tangible Net Worth	Times	2.54	2.50
Current Ratio	Times	1.07	1.02

The Company has reported revenue of ~Rs. 263.26 Crs. in 9MFY20.

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA - NA**

### Rating History for the last three years

Facilities	Current Rating (March 2020)			Rating History	
	Tenure	Amount (Rs Cr)	Rating	15Apr2019	16Feb2018
<b>Fund Based</b>					
OCC/ODBD/WCDL Term Loan	Long Term	57.70 0.35	<b>BWR BBB-/Stable Reaffirmed</b>	BWR BBB-/Stable	BWR BBB-/Stable
PC/PCFC/FDB	Short Term	13.00	<b>BWR A3 Reaffirmed</b>	BWR A3	BWR A3
<b>Non-fund Based</b>					
ILC/FLC/BC/BG		15.30			
<b>Total</b>		<b>86.35</b>	<b>Rupees Eighty Six Crores and Thirty Five Lakhs Only</b>		

**Note:** Rs. 42.50 Crs. of the Company's bank loan facilities were initially rated as BWR BB+/Stable/A4+ on 10Aug2015. The ratings were subsequently upgraded to BWR BBB-/Stable/A3 for Rs. 57.27 Crs. of bank loan facilities on 07Nov2016. No rating action was taken in 2017. Besides the above mentioned facilities, the Company had Rs. 3.48 Crs. of loan facility outstanding as on 31Mar2019 with another bank which is not rated by BWR.

### Complexity Levels of the Instruments

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to Applicable Criteria

<ul style="list-style-type: none"> <li><a href="#">General Criteria</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Manufacturing Companies</a></li> </ul>
<ul style="list-style-type: none"> <li><a href="#">Approach to Financial Ratios</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Short Term Debt</a></li> </ul>

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**POCL Enterprises Limited**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	Canara Bank	OCC/ODBD/WCDL	22.70	-	22.70
2		PC/PCFC	-	13.00	13.00
3		ILC/FLC/BG	-	5.30	5.30
4		Term Loan	0.35	-	0.35
5	HDFC Bank	Cash Credit	35.00	-	35.00
6		Letter of Credit	-	10.00	10.00
<b>TOTAL - Rupees Eighty Six Crores and Thirty Five Lakhs Only</b>					<b>86.35</b>

**Note:** Besides the above mentioned facilities, the Company had Rs. 3.48 Crs. of loan facility outstanding as on 31Mar2019 with another bank which is not rated by BWR.

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**About Brickwork Ratings:** Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.