January 08, 2021

# Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited): Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based Term Loan | 23.52 | 7.65 | [ICRA]A- (Stable); reaffirmed |
| Fund-based/Non-fund-based Limits | 229.00 | 265.00 | [ICRA]A- (Stable)/[ICRA]A2+; reaffirmed |
| **Total** | **252.52** | **272.65** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of ratings factors in the extensive experience of the promoters, the established market position of Oriental Aromatics Limited (OAL/ the company, formerly Camphor and Allied Products Limited) in the Indian camphor and aroma chemical industry, and its reputed client base with a diversified product mix. The ratings also factor in the company's healthy operational performance and its comfortable financial risk profile during FY2020 and H1 FY2021, as reflected in the healthy margins, comfortable capital structure and debt coverage indicators. ICRA, however, notes that the company is amidst carrying out a large debt-funded capex, which is expected to moderate its debt protection metrics in the near to medium term. The capex of ~Rs. 430 crore would be spread over FY2021-FY2024 and entails expansion of capacities at its existing Vadodara unit and setting up of new capacities at Mahad, Maharashtra. As the debt tie up for the capex proposed to be funded by availing ~70% term loans is yet to happen, the company would remain exposed to project execution risks, and the successful completion of these projects in a timely manner within the budgeted cost remains a key monitorable. The assigned ratings also remain constrained by the vulnerability of profitability to fluctuations in raw material prices and to adverse forex movements due to significant raw material imports, although, the same is partly mitigated as exports provide a natural hedge. The ratings also take into account the high working capital intensive nature of OAL's business operations, along with the intense competition from other established players in the industry as well as imports.

ICRA notes that the company lost ~40 days of production owing to the pandemic fueled lockdown, which impacted its Q1 revenues. Resultantly, the operating income in H1FY2021 was 30% lower at Rs. 297.1 crore as compared to the Rs. 416.3 crore reported in H1 FY2020. The company is expected to report a 15-20% revenue decline in the current fiscal. Nevertheless, ICRA will continue to monitor the impact of the Covid-19 pandemic and other aligned regulatory restrictions on the company's operations.

The Stable outlook reflects ICRA's expectation that OAL would continue to benefit from its diversified product portfolio and its position as one of the leading players in the camphor and aroma chemical market.

## Key rating drivers and their description

## Credit strengths

**Extensive experience of the promoters and established market position in the chemical industry-** The Bodani family (promoters) has extensive experience in the chemical industry. Hence, the company continues to benefit from its promoters' extensive experience and its position as one of the leading players in the Indian aromatic chemical and camphor market.

**Reputed client base with diverse product mix catering to different industries-** OAL has a diverse product mix catering to different industries, which provide cushion against demand fluctuations in a specific industry. Over the years, the company has established strong relations with several reputed companies, resulting in repeat business.

**Comfortable financial risk profile –** OAL Group's financial risk profile remains comfortable owing to low dependence on external borrowings, which has resulted in a comfortable capital structure, with a gearing of 0.11 times and TOL/ TNW of 0.31 times as on March 31, 2020. The debt protection metrics have remained healthy—with the interest coverage of 17.30 times and Total Debt/ OPBDITA of 0.40 times in FY2020. In H1FY2021, the Group reported revenue of Rs. 297.09 crore, and its operating margins improved to 22.81% from 16.64% in FY2020, supported by lower raw material costs and improved realisations. However, margins are expected to decline from the levels achieved in H1FY2021, owing to increase in raw material prices. The company is amidst carrying out a large debt-funded capex, which is likely to moderate its debt protection metrics in the near to medium term.

## Credit challenges

**Vulnerability of profitability to volatility in raw material prices and foreign-exchange fluctuations-** OAL's raw material consumption accounts for ~64-68% of the sales, thereby exposing its profitability to price fluctuation risk (with its key raw material, alpha-pinene, witnessing high price volatility in the past). Further, the company is also exposed to forex fluctuation risks owing to significant exports and imports, though the same is partly mitigated by a natural hedge. Nevertheless, the company has adequately passed on the fluctuations in raw material prices to its customers for the camphor as well as perfumery chemical segment.

**High working capital intensive business-** The working capital intensity of operations remains high (NWC/OI of 37% in FY2020 and 50% in H1FY2021) because of OAL's high inventory holding period and debtor days. High inventory is maintained as many raw materials are required in the manufacturing process and because the lead time for imported material (largely for the perfumery chemical segment) is high.

**Intense competition from domestic manufacturers as well as imports-** The camphor industry faces intense competition, with the presence of many domestic players as well as imports from China. For the perfumery chemicals, flavors and fragrance segment it also faces intense competition from large international and domestic players.

**Project execution risk owing to the large capex being undertaken by the company-** The company is planning a cumulative capex of ~Rs 430 crore over FY2021-FY2024, which is proposed to be funded with a debt-equity mix of 70:30. The capex comprises of two parts – Rs. 180 crore towards its existing facility at Vadodara and Rs. 250 crore for setting up a new plant at Mahad, Maharashtra. The Vadodara capex entails setting up of hydrogenation facilities and expanding capacity for its multipurpose plant as well as a new dedicated block for a high-value, low-volume speciality chemical. The Mahad capex of ~Rs. 250 crore comprises ~Rs. 150 crore towards setting up of a camphor plant and the balance for setting up an aroma chemical plant. As per the management, the payback period for the project is ~4 years. It anticipates limited marketing risk from these projects as the products would cater to existing clients. The demand for camphor remains robust and with its existing camphor plant operating at optimum levels, the new facility would enable it to meet the incremental demand and cater to newer geographies. For the aroma chemicals, the capex is towards enhancement of capacities for one of its existing product, which is witnessing a robust demand. The new product proposed to be launched will have limited marketing risk as the products despite it being generic molecules, face limited competition and the company is expected to have the first mover advantage. Nonetheless, with the capex being sizeable in comparison to the company's existing gross block and the debt tie up yet to happen, the company would remain exposed to project execution risks and the successful completion and ramp up of operations from these projects remains a key monitorable.

## Liquidity position: Adequate

OAL's liquidity is expected to remain adequate supported by healthy cash accruals and availability of cushion in the form of modest cash balance and undrawn lines of credit. The utilisation of the company's fund-based limits have remained low, with average utilisation of ~15%-20% in the past twelve months providing buffer to its liquidity. The company has capex plans of ~Rs. 430 crore over FY2021-FY2024, which are expected to be funded through a mix of debt and internal accruals. The company's ability to secure debt funding in a timely manner will be crucial for maintaining adequate liquidity.

## Rating sensitivities

**Positive triggers**

A rating upgrade looks unlikely in the near to medium term due to the large capex being undertaken by the company. However, ICRA could upgrade OAL's ratings if the company commissions the projects undertaken without any time or cost overruns and successfully ramps up operations

**Negative triggers**

Negative pressure on the ratings could arise if there is a significant decline in the operating income and profitability or cost overruns in the large debt-funded capex. Moreover, weakening of debt protection metrics, with TD/OPBDITA exceeding 3 times on a sustained basis, is a credit negative.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for entities in the Chemical Industry<br>Consolidation and Rating Approach |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | **Consolidation**<br>For arriving at the ratings, ICRA has combined the business and financial risk profiles of Oriental Aromatics Limited (OAL) and its subsidiaries – Oriental Aromatics and Sons Limited and PT Oriental Aromatics, Indonesia, as the entities are owned and managed by the same promoters and are involved in related lines of business. |

## About the company

OAL is a publicly listed company, which manufactures a variety of terpene chemicals, camphor, speciality aroma chemicals, fragrances and flavours. Its product range includes synthetic camphor, terpineol, pine oil, resins, astromusk, perfumery chemicals, speciality chemicals, fragrances and flavours and other chemicals, used in different industries (such as flavours and fragrances, pharmaceuticals, soaps and cosmetics, rubber and tyre, paints and varnishes, fast-moving consumer goods etc). The company has three manufacturing plants located at Nandesari (Vadodara, Gujarat), Bareilly (Uttar Pradesh) and Ambernath (Maharashtra). It is currently setting up a new unit at Mahad, Maharashtra under its wholly owned subsidiary, Oriental Aromatics and Sons Limited.

## Key financial indicators (audited)

| | FY2019 | FY2020 | H1FY2021* |
|---|---|---|---|
| Operating Income (Rs. crore) | 754.69 | 759.89 | 297.09 |
| PAT (Rs. crore) | 57.14 | 86.19 | 43.17 |
| OPBDIT/OI (%) | 15.41% | 16.64% | 22.81% |
| PAT/OI (%) | 7.57% | 11.34% | 14.5% |
| | | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.72 | 0.31 | 0.24 |
| Total Debt/OPBDIT (times) | 1.57 | 0.40 | 0.13 |
| Interest Coverage (times) | 8.42 | 17.30 | 65.64 |

**limited review*

## Status of non-cooperation with previous CRA: N/A

## 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 |
| | | | | | 08-Jan-2021 | 30-Mar-2020 | 21-Dec-2018 | 16-Feb-2018 |
| 1 | Term Loan | Long Term | 7.65 | 4.59* | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) |
| 2 | Fund-based/Non-fund-based Limits | Long Term/ Short Term | 265.00 | - | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]BBB+ (Stable)/ [ICRA]A2 |

*Amount in Rs. crore *As on September 30, 2020*

## 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 www.icra.in

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loans | FY2017 | NA | FY2021 | 7.65 | [ICRA]A- (Stable) |
| NA | Fund-based/Non-fund-based Limits | NA | NA | NA | 265.00 | [ICRA]A- (Stable)/ [ICRA]A2+ |

*Source: Oriental Aromatics Limited*

## Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| PT Oriental Aromatics | 99.00% | Full Consolidation |
| Oriental Aromatics and Sons Limited | 100% | Full Consolidation |

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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