January 04, 2022

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	0.00	157.65	[ICRA]A (Stable); assigned
Fund-based/Non-fund-based Limits	263.00	263.00	[ICRA]A(Stable)/[ICRA]A2+; reaffirmed
Unallocated Limits	9.65	0.00	-
Total	**272.65**	**420.65**	

Instrument details are provided in Annexure-1

Rationale

The rating factors in the healthy improvement in Oriental Aromatics Limited's (OAL; formerly Camphor and Allied Products Limited) operating income in FY2021 and H1 FY2022 driven by improved realisation and healthy demand for camphor and aromatic chemicals products. ICRA expects the growth momentum to continue in the medium term on the back of increasing sales realisation and healthy demand for existing and new products. The ongoing capex across all the facilities and greenfield project at Mahad is expected to support the revenue growth, going forward. Moreover, deferment and staggering of the planned capex is likely to result in lower debt availment than expected earlier, resulting in better credit profile than previously anticipated.

The rating continues to consider the established market position of the company in the Indian camphor and aroma chemical industry, its diversified product mix as well as exposure to diversified end-user industries. The ratings also factor in the comfortable capital structure and debt coverage indicators. The operating profit margin stood at 22.0% in FY2021 due to improving sales realization, increasing share of high value products to total revenues and benefit of low-cost inventory with the company. While the profit margin moderated to 11.9% in H1 FY2022 due to elevated raw material prices, it is expected to witness improvement, going forward.

ICRA, however, notes that the company is amidst carrying out a large debt funded capex, which is anticipated to moderate its debt protection metrics in the near to medium term. The capex of ~Rs. 350.0 crore (against Rs. 430 crore estimated earlier) would be spread over FY2022-FY2023 and entails expansion of capacities at its existing Vadodara (Gujarat) unit and setting up of a new capacity at Mahad (Maharashtra). While the company has witnessed delays in both the projects due to multiple reasons, the capex is now staggered, which is likely to result in lower debt availment than earlier expected, resulting in better credit profile than previously anticipated. With the capex is proposed to be funded by availing ~75% term loans, the company would remain exposed to project execution risks and successful completion of these projects in a timely manner within the budgeted cost remain a key monitorable. The assigned ratings also remain constrained by the vulnerability of profitability to the fluctuations in raw material prices and the adverse forex movements due to significant raw material imports, although, the same is partly mitigated because of a natural hedge due to exports. The ratings also consider the high working capital intensive nature of OAL's business operations, along with intense competition from other established players in the industry as well as imports.

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 an extensive experience in the chemical industry. Hence, the company continues to benefit from its promoters' experience and its position as one of the leading players in the Indian aromatic chemical and camphor market.

Reputed client base with a diverse product mix catering to different industries - OAL has a diverse product mix catering to different industries such as personal care, food processing, pharmaceutical and industrial purposes, which provide cushion against demand fluctuations in a specific industry. Over the years, the company has established strong relationships 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 0.14 time and TOL/ TNW of 0.34 time as on March 31, 2021. The debt protection metrics have remained healthy—with the interest coverage of 67 times and Total Debt/ OPBDITA of 0.50 time in FY2021. ICRA notes that with considerable debt-funded capex planned in FY2022 and FY2023, some moderation is expected in debt protection metrics. The company's ability to timely complete the planned capex and generate commensurate returns will remain critical to maintain the debt protection metrics at a comfortable level. In H1 FY2022, the company reported revenues of Rs. 460.14 crore on the back of introduction of new products and higher sales realisation, but operating margins moderated to 11.91% from 22.0% in FY2021 on account of increasing raw material prices and the company's inability to pass on the impact to customers owing to fixed price contracts. The margin is expected to improve in H2 FY2022, thus maintaining the OPM at healthy levels in FY2022.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations - OAL's raw material consumption accounts for ~60% 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). In addition, ICRA notes that the company enters in fixed price contracts with some of its customers, thereby limiting its ability to pass on the impact of increase in raw material prices instantaneously, as evident from decline in margin in H1 FY2022. Furthermore, the company is also exposed to forex fluctuation risks owing to significant exports and imports, though the same is partly mitigated due to a natural hedge. Nevertheless, the company has adequately passed on the fluctuations in raw material prices to its customers for the camphor segment.

High working capital intensive nature of the business - The working capital intensity of operations remains high (NWC/OI of 55% in FY2021 and 44% in H1 FY2022) because of OAL's high inventory holding period and debtor days. High inventory is maintained due to the many raw materials that are required in the manufacturing process as well as the high lead time for imported material (largely for the perfumery chemical segment).

Intense competition from domestic manufacturers as well as imports - The camphor industry faces intense competition from the many domestic players as well as imports from China. The flavors and fragrances segment also faces intense competition from large international and domestic players.

Project execution risk owing to large capex being undertaken by the company - The company is planning a cumulative capex of ~Rs. 350.0 crore over FY2022-FY2023, which is proposed to be funded by a debt-to-equity mix of 75:25. While the company has witnessed delays in both its projects due to multiple reasons, the capex is now staggered and the amount is lower than earlier envisaged, thus resulting in better credit profile than previously anticipated.

The Vadodara capex entails setting up of hydrogenation facilities, expansion of capacity for its multipurpose plant as well as a new dedicated block for a high value, low volume, speciality chemical. The Mahad capex is towards setting up a camphor plant. 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 products, which is witnessing a robust demand. The new products proposed to be launched have limited marketing risk despite being generic molecules and face limited competition. The company is expected to have the first mover advantage for them. Nonetheless, with the capex being sizeable in comparison to the company's existing gross block, OAL would remain exposed to project execution risks, while the successful completion and ramp up of operations from these projects remain key monitorables. Moreover, the addition of debt will moderate its credit metrics to some extent.

Liquidity position: Adequate

OAL's liquidity is expected to remain adequate supported by healthy cash accruals and undrawn lines of credit. ICRA notes that the company plans to incur a capex of ~Rs. 350 crore during FY2022 and FY2023, which will be partially funded (~25%) through internal accruals, thereby limiting the increase in free cash balance. Furthermore, considering the high working capital intensity, the working capital requirement is also expected to increase along with growing scale of operations. The company had free cash and bank balance of ~Rs. 10.0 crore as on September 30, 2021. Nevertheless, ICRA notes that the utilisation of the company's fund-based limits have remained low with average utilisation of ~15-20% in the past 12 months, providing buffer to its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade OAL's ratings if there is consistent growth in turnover and sustenance of profit margin along with timely completion of planned capex. Total debt/operating profit of below 1.8 times on a sustained basis will remain critical for a rating upgrade

Negative factors – Negative pressure on the ratings could arise in case or significant decline in the operating income and profitability or cost overruns in the large debt-funded capex or weakening of debt protection metrics with TD/OPBDITA exceeding 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Chemical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	**Consolidation** For arriving at the ratings, ICRA has combined the business and financial risk profiles of Oriental Aromatics Limited (OAL) and its subsidiary, Oriental Aromatics and Sons Limited, as the entities are owned and managed by the same promoters and are involved in related business sectors.

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, fragrances and flavours, and other chemicals used in different industries (such as pharmaceuticals, soaps and cosmetics, rubber and tyre, paints and varnishes, and fast-moving consumer goods, or FMCG). The company has three manufacturing plants at Nandesari (Vadodara, Gujarat), Bareilly (Uttar Pradesh) and Ambernath (Maharashtra). It is currently setting up of a new unit at Mahad, Maharashtra, under its wholly-owned subsidiary, Oriental Aromatics and Sons Limited.

Key financial indicators (audited)

Consolidated	FY2020	FY2021	H1FY2022
Operating Income (Rs. crore)	759.89	708.84	460.14
PAT (Rs. crore)	86.19	101.93	35.30
OPBDIT/OI (%)	16.75%	21.98%	11.91%
PAT/OI (%)	11.34%	14.38%	7.67%
Total Outside Liabilities/Tangible Net Worth (times)	0.31	0.34	0.32
Total Debt/OPBDIT (times)	0.41	0.50	0.64
Interest Coverage (times)	10.68	67.43	33.01

PAT: Profit after Tax before adjustment for associate and joint ventures; 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 Mar 31, 2021 (Rs. Crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					04-Jan-22	21-Dec-21	8-Jan-21	30-Mar-20	21-Dec-18
1	Fund-based Limits and Non-fund Based Limits	Long-term/Short-term	263.00	NA	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long-term	157.65	Nil	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Unallocated Amount	Long-term	-	-	-	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Fund-based/ Non-fund Based Limits	Simple/Very Simple
Term Loan	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 analyzing 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/ Banker Nam	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
HSBC Bank Limited	Fund based/Non fund based limits	-	-	-	71.0	[ICRA]A(Stable)/ [ICRA]A2+
HDFC Bank Limited		-	-	-	30.0	
Standard Chartered Bank		-	-	-	75.0	
Kotak Mahindra Bank		-	-	-	15.0	
DBS Bank		-	-	-	30.0	
Citibank		-	-	-	42.0	
HSBC Bank Limited	Term Loans	FY2017	8.1%	FY2022	7.65	[ICRA]A (Stable)
HDFC Bank Limited		Jun-21	5.5%	Sep-26	70.0	
Citibank		Mar-21	3M T-bill + 2.09%	May-26	80.0	

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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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