June 20, 2023

Fine Organic Industries Limited: Long-term rating upgraded to [ICRA]AA (Stable); short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	15.00	-	-
Long-term/Short-term – Fund based/Non-fund based limits	56.00	86.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)/assigned; [ICRA]A1+; reaffirmed/assigned
Long term/Short term – Unallocated	4.25	-	-
Total	**75.25**	**86.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the significant improvement in the credit profile of Fine Organic Industries Limited (FOIL), driven by robust cash generation in FY2023 and expectation of healthy cash generation which will keep the company significantly net cash positive. The cash generation is expected to be supported by healthy demand for the company's products, which has resulted in nearly full utilisation of the legacy plants and ramp up of the recently commissioned capacity. At present, the credit profile is characterised by low debt levels (including lease liability Rs. 1.32 crore) of ~Rs 28.5 crore and large unencumbered cash balance of Rs. 515.0 crore as on March 31, 2023. While ICRA notes that the company is planning capacity expansions in the near to medium term, the overall credit profile is expected to remain stable, given the healthy cash generation from the current operations. Although the expected capex has been factored in the ratings, any change in the quantum, funding mix, execution timeline and the associated risk will remain a key monitorable.

The ratings continue to take into account FOIL's established marked position, the promoters' extensive experience in the oleochemicals industry and the longstanding relationship with a diversified clientele which includes reputed players from the petrochemical and food industries. The company also has a vast portfolio of 450+ products which find application in multiple industries. The ratings also factor in the company's strong product and process innovation capabilities, supported by a strong in-house research and development (R&D) facility.

The ratings are, however, constrained by the susceptibility of the company's profitability to volatility in raw material prices, evident from the variation in operating margins over the last few years. However, ICRA notes that the company has been able to pass on the price impact with some lag and maintain average margins over a certain period. The ratings are also affected by the exposure of the company's profitability to adverse exchange rate movements; however, the company undertakes hedging to mitigate the risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from a favourable demand for its products and ramp-up in the utilisation of new capacities, supported by its extensive track record of operations.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in manufacturing additives – FOIL, a part of the Fine Organics Group founded in 1970, manufactures oleochemical derivatives for various end-user industries such as foods, plastics, rubbers, paints, inks, cosmetics, coatings, feed nutrition etc. The company manufactures more than 450 different products and has various global certifications for them.

Strong in-house R&D facilities for process improvement and product innovations - FOIL has an in-house R&D centre with strong capabilities. The company's in-house product innovations, product applications and engineering improvements help it cater to the market's needs and gain an edge over other global players.

Reputed customer profile with low customer concentration risk - The company has a well-diversified and reputed customer base in both the petrochemical and food sectors. As indicated by the company's management, the company's sales are diversified with no customer accounting for more than 5% of the overall sales.

Long-term relationships with suppliers – About 70-75% of the company's raw material is procured from the domestic market. The company has healthy relationships with its suppliers, which ensure uninterrupted supply of raw materials and mitigate the impact of supply risks.

Strong financial profile– FOIL, on a consolidated basis, reported an operating income of Rs. 3,023 crore in FY2023, a growth of 61% over the FY2022 levels. The growth was driven by higher realisations and incremental sales volumes, supported by healthy demand and ramp up of the facility at Ambernath-3 and Patalganga. On profitability, the operating margin rose sharply to 27.5% in FY2023 as the company's gross margins expanded amid stable realisations and declining raw material prices. The company's gearing and debt/OPBITDA continued to be low at ~0.02 times and ~0.03 times, respectively, as on March 31, 2023. The company's debt coverage metrics are expected to remain healthy due to the robust cash accruals.

Credit challenges

Vulnerability to raw material price fluctuation – The company's key raw material is vegetable oil and its derivatives, whose prices have been volatile. The prices of the company's products are based on vegetable oil prices. In the recent past, the company has shifted to shorter term contracts, given the high volatility in the market. However, now, as vegetable prices are expected to remain stable, they are reverting to comparatively longer contracts.

Profitability exposed to adverse fluctuation in forex rates – The company's profitability is vulnerable to the adverse movements in foreign currency as ~60-70% of its sales come from exports, while it imports ~30-35% of its total raw material requirement. However, the risk is mitigated largely by the hedging undertaken by the company, debt repayments in foreign currency and forex hedging of imports and exports.

Liquidity position: Strong

FOIL's liquidity position, on a consolidated basis, remains strong with healthy annual fund flow from operations, surplus free cash and bank balances and unutilised working capital limits. At a consolidated level, the annual fund flow from operations was Rs. 601.1 crore in FY2023. FOIL's unencumbered cash and bank balances stood at ~Rs. 515 crore as on March 31, 2023. The fund-based limits of Rs. 86 crore remain unutilised because of healthy cash accruals. FOIL has quarterly repayment obligations of $1.1 million against an ECB of $18.75 million it availed in June 2019. As on March 31, 2023, the outstanding amount of ECB stood at $3.3 million, which would be fully repaid by December 2023. The repayments are low vis-à-vis the cash generation.

ESG Risks

Given the nature of the product manufactured by FOIL, the company is not exposed to environmental risk. Majority of the products manufactured by the company are bio-based and bio-degradable. However, as some of the end-user industries e.g. polymers may remain exposed to environmental risks, the offtake from such consumers may face negative impact. However, given a diversified customer profile, FOIL is not expected to witness a significant impact on its operations.

In terms of social consideration, the product demand as well as operations are unlikely to be significantly impacted. Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. FOIL hasn't experienced/reported any incident that suggests safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade FOIL's ratings if the company demonstrates a substantial increase in its scale of operations while maintaining healthy operating margins, working capital intensity and capital structure on a sustained basis.

Negative factors – Pressure on the ratings could emerge if the company undertakes sizeable debt-funded capital expenditure or acquisition, which will impact its capital structure and liquidity and increase the net debt/OPBDITA to more than 0.8 times on a sustained basis. Additionally, any significant deterioration in the company's operating margin and working capital cycle impacting its cash flows and liquidity may warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Fine Organic Industries Limited. As on March 31, 2023, the company had two subsidiaries and three JVs, which are enlisted in Annexure-2

About the company

Fine Organic Industries Limited (FOIL) is the flagship company of the Fine Organic Group, founded in 1970 by Mr. Ramesh Shah, a Mumbai-based businessman with experience in chemical trading, and Mr. Prakash Kamat, a skilled chemical technocrat. The Group is engaged in the manufacturing of oleochemical additives for various end-user industries such as foods, plastics, rubbers, paints, inks, cosmetics, coatings, feed nutrition etc. FOIL, incorporated in 2002, began operations in 2006 by setting up a manufacturing facility in Ambernath (near Mumbai). In 2011, FOIL's group company viz. Oleofine Organics (India) Private Limited (Oleofine) was merged with FOIL owing to significant operational, managerial, and financial synergies between the two entities. At present, FOIL has manufacturing facilities at four locations in Maharashtra – Ambernath, Badlapur, Dombivli and Patalganga. In FY2017, FOIL merged with Fine Research and Development Centre Private Limited (FRDCPL) and Fine Speciality Surfactants Private Limited (FSSPL). Previously a private limited company, FOIL was registered as a public limited company in November 2017 and subsequently got listed in July 2018.

Key financial indicators (audited)

FOIL Consolidated	FY2022	FY2023
Operating income	1878.2	3023.1
PAT	260.7	619.9
OPBDIT/OI	19.5%	27.5%
PAT/OI	13.9%	20.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.2	0.03
Interest coverage (times)	71.7	181.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

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 as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 20, 2023	Apr 18, 2022	Apr 06, 2021	-
1	**Long-term – Fund-based – Cash credit**	Long term	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	**Long-term/Short-term – Fund based/Non-fund based limits**	Long term and short term	86.00	-	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	-	-
3	**Long term/Short term – Unallocated**	Long term and short term	-	-	-	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund based/Non-fund based limits	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	**Fund-based/Non-fund based limits**	NA	NA	NA	86.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	FOIL Ownership	Consolidation Approach
Fine Organics (USA), Inc.	100.00%	Full consolidation
Fine Organics Europe BV	100.00%	Full consolidation
Fine Zeelandia Private Limited	50.00%	Equity Method
FineADD Ingredients GmbH	50.00%	Equity Method
Fine Organic Industries (Thailand) Co., Limited	45.00%	Equity Method

Source: Company (As on 31.03.2023)

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About ICRA Limited:

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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.

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