Camphor and Allied Products Limited

February 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	14.0	33.0	[ICRA]BBB+ (Stable); Reaffirmed
Long-term / Short-term – Fund-based/ Non-fund Based Limits	101.0	149.0	[ICRA]BBB+ (Stable)/[ICRA]A2; Reaffirmed
Short-term – Fund-based/ Non-fund Based Limits	35.0	-	-
Long-term / Short-term- Unallocated Limits	5.7	-	-
Total	**155.7**	**182.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)[1] assigned to the Rs. 33.0-crore[2] (revised from Rs. 14.0 crore) term loan facility of Camphor and Allied Products Limited (CAPL). ICRA has also re-affirmed the ratings of [ICRA]BBB+ (Stable) and [ICRA]A2 (pronounced ICRA A two) assigned to Rs. 149.00-crore (revised from Rs. 101.00 crore) long-term/ short-term fund-based/ non-fund based bank facilities of the company. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the promoters in the chemical industry and CAPL's established market share in Indian camphor industry and its diverse product line, which meets the requirements of reputed clients present in different industries. ICRA also notes the amalgamation of Oriental Aromatics Limited (OAL, parent company, [ICRA]BBB+/Stable/[ICRA]A2+; Withdrawn) with CAPL, with the effective date for the scheme of amalgamation being January 2, 2018. The ratings also take into consideration the comfortable financial risk profile of CAPL Group (includes CAPL and erstwhile OAL) characterised by comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained by the stagnant operating income (OI) of the CAPL Group in the last three years and subdued profitability. The ratings also consider the vulnerability of its profitability to fluctuations in raw material prices, owing to high raw material inventory maintained and the adverse foreign-exchange movements due to significant raw material imports, although the same is partly mitigated because of a natural hedge due to exports. The ratings factor in the high working capital intensive nature of CAPL's business operations, along with stiff competition from other established players in the industry and imports.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA expects CAPL to benefit from its diversified product portfolio and its position as one of the leading players in the Indian camphor market. The outlook may be revised to 'Positive' if there is sustained improvement in revenues and profitability of the company leading to an improved financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower-than-expected, or a higher-than-expected capital expenditure is incurred, or the liquidity weakens.

Key rating drivers

Credit strengths

Extensive experience of the promoters and established market position in the camphor industry - The Bodani (promoters) family has an 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 camphor market.

Reputed client base with a diverse product mix catering to different industries - CAPL has a diverse product mix catering to different industries, which provides cushion against demand fluctuations in specific industries. Over the years, it has established relations with its reputed customer base which assist in procuring repeat orders.

Comfortable financial risk profile - The financial risk profile of the CAPL Group remains comfortable with a gearing 0.4 times as on March 31, 2017. The debt-coverage indicators also remain healthy, as reflected by its interest coverage of 11.1 times and Net Cash Accruals/Total Debt of 34% in FY2017.

Credit challenges

Stagnant OI and subdued operating margins - The OI of the CAPL Group has remained stagnant at Rs.460-465 crore in the last three years. Further, the operating margins have also remained subdued with CAPL reporting a decline in operating margins to 13.9% in H1 FY2018 from 14.7% in H1 FY2017. ICRA expects the amalgamation of OAL with CAPL is likely to provide synergistic benefits, though the same remains to be seen.

Vulnerability of profitability to volatility in raw material prices and foreign-exchange fluctuations - Raw material consumption accounts for ~60-65% of the sales thereby exposing CAPL's profitability to the price fluctuation risk with its key raw material, alpha-Pinene witnessing high price volatility in the past. Further, the company is also exposed to foreign-exchange fluctuation risk owing to significant exports and imports, though the same is partly mitigated due to a natural hedge.

High working capital intensive nature of the business - The working capital intensity of operations continues to remain high (NWC/OI of 41% in FY2017) because of CAPL's high inventory holding period and moderate debtor days. High inventory is maintained due to number of raw materials required in the manufacturing process and higher lead time for imported material.

Intense competition from the domestic manufacturers as well as imports - The camphor industry faces stiff competition, with presence of many domestic players as well as imports from China. The company also faces intense competition from international and domestic players in its other product categories such as perfumery chemicals, fragrances and flavours.

Analytical approach: ICRA has taken a consolidated view of CAPL and erstwhile OAL ('CAPL Group').For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Entities in the Chemical Industry

About the company:

CAPL is a publicly listed company involved in manufacturing a variety of terpene chemicals, camphor, speciality aroma chemicals, fragrances and flavours. Its product range includes synthetic camphor, terpineols, pine oils, 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. OAL, which had a 57.66% stake in CAPL, was amalgamated with CAPL with the effective date for the scheme of amalgamation being January 2, 2018.

For the six months that ended on September 30, 2017, CAPL reported a profit after tax (PAT) of Rs. 11.5 crore on an OI of Rs. 180.4 crore.

Key financial indicators (Audited)

CAPL	FY2016	FY2017
Operating Income (Rs. crore)	352.4	352.5
PAT (Rs. crore)	22.7	24.2
OPBDIT/ OI (%)	14.5%	15.2%
RoCE (%)	15.8%	15.1%
Total Debt/ TNW (times)	0.7	0.5
Total Debt/ OPBDIT (times)	2.1	1.6
Interest Coverage (times)	5.4	13.7
NWC/ OI (%)	41%	41%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2018) Date & Rating February 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 December 2016	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 August 2015	Date & Rating in FY2015 June 2014
1	Term Loan	Long Term	33.0	32.9	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund Based/ Non-fund Based limits	Long Term /Short Term	149.0	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+
3	Fund Based/ Non-fund Based limits	Short-term	-	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+
4	Unallocated limits	Long Term / Short Term	-	-	-	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017	-	May 2021	33.00	[ICRA]BBB+ (Stable);
NA	Long-term / Short-term – Fund-based/ Non-fund Based	-	-	-	149.00	[ICRA]BBB+ (Stable)/[ICRA]A2;

Source: Camphor and Allied Products Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Jay Sheth
+91 22 6114 3419
jay.sheth@icraindia.com

Rachit Mehta
+91 22 6114 3423
rachit.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999