Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited)

December 21, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	33.00	23.52	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term / Short-term - Fund-based / Non-fund Based Limits	149.00	229.00	[ICRA]A-(Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Stable)/[ICRA]A2;
Total	**182.00**	**252.52**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade favourably factors in the improvement in Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited)'s (OAL's) business performance over the last three quarters as reflected in its higher profitability and consequently, comfortable capital structure and debt coverage indicators. The upward trajectory in profitability is due to multiple price hikes implemented by the company, given the favourable demand-supply scenario with low imports from China (especially for its camphor product segment). Also, as per the management, OAL has passed on the increase in input costs (caused by supply disruptions) to its end-customers in the perfumery chemical segment. Thus, ICRA expects the company to maintain better-than-historical profitability levels largely driven by its camphor product segment and adequate profitability for its perfumery chemical segment. The ratings continue to favourably factor in the extensive experience of the promoters in the chemical industry and OAL's established presence in the Indian camphor and aroma chemical industry. The ratings further take into account the company's diverse product line, which meets the requirements of reputed clients in different industries.

The ratings, however, remain constrained by the fluctuations in raw material prices, owing to the increased raw material inventory maintained 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 take into account 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.

Outlook: Stable

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

Key rating drivers

Credit strengths

Extensive experience of promoters and established market position in chemical industry - The Bodani family (promoters) has an extensive experience in the chemical industry. Hence, the company continues to benefit from its promoters' extensive experience and the 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 the specific industries. Over the years, the company has established strong relations with its reputed customer base, resulting in repeat business.

Price hikes support sharp improvement in profitability indicators - With increase in raw material prices in H2 FY2018 and the subsequent rupee depreciation, the company implemented multiple price hikes from January 2018 across product segments. The company had significant pricing power in the camphor product segment due to low imports from China. As per the management, the company also passed on the increase in input costs for the perfumery chemical segment. This resulted in a sharp improvement in revenues (45.4% YoY growth) and profitability (OPBDIT margin at 16.6% from 12.8% in FY2018) in H1 FY2019.

Comfortable financial risk profile - The OAL Group's financial risk profile remains comfortable with a consolidated gearing of 0.4 times as on March 31, 2018 and standalone gearing 0.4 times as on September 30, 2018. The debt coverage indicators remain healthy, as reflected by the interest coverage of 6.9 times and net cash accruals/total debt of 44% in H1 FY2019.

Credit challenges

Profitability vulnerable to volatility in raw material prices and forex 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 due to a natural hedge. Nevertheless, as per the management, the company has adequately passed on the increase in raw material prices to its customers for the perfumery chemical segment as reflected in the YoY growth in revenues and profitability in H1 FY2019.

Increased working capital intensive nature - The working capital intensity of operations remains high (NWC/OI of 44% in H1 FY2019) 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 increased 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, with the 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).

Requirement for continuous capex - The business requires continuous profitability to scale up the revenues and improve the product mix. The management has indicated that it shall be incurring ~Rs. 80-100 crore capex for the coming two fiscals (FY2020 and FY2021) to achieve its growth plans. Any higher-than-expected capex could pressurise the coverage indicators.

Liquidity position

OAL's cash flow from operations remained comfortable in FY2018 on the back of a stable operating performance. Though the company's working capital requirements have increased in the current fiscal (led by higher growth), its liquidity remains supported by the improvement in operating profitability. Further, the company has adequate undrawn working capital limits of ~25-30% in the past six months. It has also tied up additional working capital limits to manage its growth plans. The company has capex plans of Rs. 80-100 crore in the coming two fiscals, which are expected to be funded through a mix of debt and internal accruals. The company's ability to timely secure debt funding for the same will be crucial for maintaining adequate liquidity.

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	The ratings are based on the consolidated financial statements of the issuer.

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).

For the six-months period ended September 30, 2018, OAL reported a profit after tax (PAT) of Rs. 28.2 crore on an operating income of Rs. 346.8 crore.

Key financial indicators (audited)

	FY2017	FY2018	H1 FY2019 (Provisional)
	Consolidated	Consolidated	Standalone
Operating Income (Rs. crore)	457.8	506.0	346.8
PAT (Rs. crore)	27.9	25.0	28.2
OPBDIT/OI	12.6%	12.8%	16.6%
RoCE	11.9%	11.4%	20.3%
Total Debt/TNW (times)	0.3	0.4	0.4
Total Debt/OPBDIT (times)	1.8	2.0	1.5
Interest Coverage (times)	10.8	8.8	6.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY18	Date & Rating in FY2017		Date & Rating in FY2016
					Dec-18	Feb-18	Dec-16	Apr-16	Aug-15
1	Term Loans	Long Term	23.52	23.52	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based / Non-fund Based Limits	Long Term / Short Term	229.00	-	[ICRA]A- (Stable) / [ICRA]A2+	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB+ (Stable) / [ICRA]A2	[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	23.52	[ICRA]A-(Stable);
NA	Long-term / Short-term - Fund-based / Non-fund Based	-	-	-	229.00	[ICRA]A-(Stable)/ [ICRA]A2+;

Source: Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited)

For arriving at the ratings, ICRA has considered the consolidated financials of OAL. As on March 31, 2018, the company had two subsidiaries that are enlisted in Annexure-2.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PT Oriental Aromatics	99.00%	Full Consolidation
Oriental Aromatics Inc.	100.00%	Full Consolidation

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