March 30, 2020

Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited): Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factors in extensive experience of the promoters and established market position of the company in the Indian camphor and aroma chemical industry, reputed client base with a diversified product mix, healthy operational performance and comfortable financial risk profile of Oriental Aromatics Limited (Formerly Camphor and Allied Products Limited)'s (OAL's) during FY2019 and YTD FY2020 as reflected in the healthy margins, comfortable capital structure and debt coverage indicators. During the year FY2019 camphor sales almost doubled on account of higher realisation and improved volumes whereas sales of perfumery chemicals grew at healthy rate of ~27%. ICRA expects that the company is likely to maintain current profitability levels largely driven by its camphor product segment and adequate profitability for its perfumery chemical segment. The ratings, however, 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 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. The ratings also factor in the exposure to project execution risks as the company plans to incur a capex of Rs 220-230 crore over the next two fiscals in setting up a camphor manufacturing facility at Mahad in Maharashtra and expansion of facilities at its Vadodara unit and successful completion of these projects remains a key monitorable.

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' extensive 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, 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- The OAL Group's financial risk profile remains comfortable with a consolidated gearing of 0.47 times as on March 31, 2019. The debt coverage indicators remain healthy, as reflected by the interest coverage of 9.1 times and net cash accruals/total debt of 46% in FY2019. During 9M FY2020 the company achieved revenues of Rs 591.3 crore and net profits of Rs 82.6 crore.

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 due to 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 nature of the business- The working capital intensity of operations remains high (NWC/OI of 48% in 9M FY2020) 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 the 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).

Project execution risk owing to the large capex being undertaken by the company- The company is planning cumulative capex of ~Rs 220-230 crore over the next 2-3 years for setting up a camphor manufacturing plant at Mahad in Maharashtra and expansion of capacities at the Vadodara unit. The capex is likely to be funded in debt-equity ratio of 80:20. Accordingly the company would be exposed to project execution risks and successful completion of these projects remains a key monitorable.

Liquidity position: Adequate

OAL's liquidity is expected to remain adequate supported by healthy cash accruals, undrawn lines of credit and low debt repayments. The company's utilisation of Fund based limits is on an average utilised only to the extent of 40-50% providing buffer to its liquidity. The company has capex plans of Rs. 220-230 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.

Rating sensitivities

Positive triggers – ICRA could upgrade OAL's rating if the company demonstrates significant increase in the operating income and operating profits accompanied with improvement in debt protection metrics.

Negative triggers – Negative pressure on OAL's rating could arise in case of significant deterioration in the operating income and profitability and/or any cost overruns in the large debt funded capex leading to weakening of debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Parent/Group Company: NA
Consolidation/Standalone	The rating is based on consolidated financial statements of the rated entity.

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). For the nine-months period ended December 31, 2019, OAL reported a profit after tax (PAT) of Rs. 82.6 crore on an operating income of Rs. 591.3 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	506.0	754.7
PAT (Rs. crore)	25.0	57.1
OPBDIT/OI (%)	12.8%	15.4%
RoCE (%)	11.4%	18.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	2.0	1.6
Interest Coverage (times)	8.8	9.1
DSCR	6.8	7.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	
					30-March-2020	21-Dec-2018	16-Feb-2018	22-Dec-2016	21-April 2016
1	Term Loan	Long Term	23.52	7.94	[ICRA]A- (Stable)	[ICRA]A- (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]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Amount in Rs. crore

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	-	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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PT Oriental Aromatics	99.00%	Full Consolidation

Analyst Contacts

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Mohit Lohia
+91 124 4545 814
mohit.lohia@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
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (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) 2556 0194/ 6606 9999