

June 08, 2023

## Oriental Aromatics Limited: Long-term rating downgraded to [ICRA]A-(Stable); short-term rating reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	150.00	150.00	[ICRA]A- (Stable); downgraded from [ICRA]A (Negative); outlook revised to Stable from Negative
Long term/Short term – Fund based/Non fund based	270.65	270.65	[ICRA]A- (Stable)/[ICRA]A2+; long-term rating downgraded from [ICRA]A (Negative); outlook revised to Stable from Negative; short-term rating reaffirmed
<b>Total</b>	<b>420.65</b>	<b>420.65</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in the rating for the bank lines of Oriental Aromatics Limited (OAL) factors in the consistent pressure on the operating margins because of a sizeable increase in domestic capacities and a significant influx of camphor from China. Moreover, recessionary pressures in the European and American markets have constrained the demand for aroma chemicals. The subdued demand conditions have resulted in a build-up of inventory and elevated working capital requirements, leading to higher working capital borrowings. Further, the company is undertaking a large debt-funded capex which is expected to keep the reliance on external debt high. Elevated debt levels, coupled with profitability challenges in the near to medium term, are expected to put pressure on the debt protection metrics with the debt/OPBDITA exceeding 4x over the near to medium term.

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 forex risk is partly mitigated by the natural hedge from exports. The ratings also consider the high working capital intensity of OAL's business operations, along with intense competition from other established players in the industry as well as imports.

The ratings, however, continue to factor in the company's established market position in the Indian camphor and aroma chemical industry, its diversified product mix and exposure to different end-user industries. Further, the ongoing capex across all the facilities and the greenfield project at Mahad in Maharashtra are expected to support revenue growth over a longer term.

ICRA also notes that the company is undertaking a large debt-funded capex of ~Rs. 250-300 crore which entails expansion of the capacities at its existing Vadodara (Gujarat) unit and setting up of a new capacity at Mahad (Maharashtra). The company would remain exposed to project execution risks and the successful completion of these projects in a timely manner within the budgeted cost remains a key monitorable.

### Key rating drivers and their description

#### 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' 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 the demand fluctuations in a specific industry. Over the years, the company has established strong relationships with several reputed companies, resulting in repeat business.

### Credit challenges

**Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations** - Raw material consumption accounts for ~60% of OAL's sales, exposing its profitability to price fluctuation risk. Its key raw material, alpha-pinene, has witnessed high price volatility in the past. In addition, ICRA notes that the company enters into fixed-price contracts with some of its customers, thereby limiting its ability to pass on the impact of the increase in raw material prices instantaneously. Further, the company is exposed to forex fluctuation risks owing to significant exports and imports, though the risk is partly mitigated by the natural hedge from exports. Nevertheless, the company has adequately passed on the fluctuations in raw material prices to its customers in the camphor segment.

**High working capital intensity** - The working capital intensity of operations remains elevated (NWC/OI of more than 50%) because of OAL's high inventory holding period and debtor days. OAL has to maintain high inventory as many raw materials are required in the manufacturing process as well as for the high lead time for imported material (largely for the perfumery chemical segment). Orders have also been postponed/cancelled, which has led to a build-up of inventory as on March 31, 2023. Further, the inventory levels have been high at the customers' end, which has resulted in postponement of orders.

**Intense competition from domestic manufacturers and imports** - The camphor segment has been impacted by Chinese imports and the sizeable increase in domestic capacities, leading to pumping of material at lower prices. In the aroma chemical segment, demand-side pressures led by the slowdown in Europe and the US impacted the sales and margins.

**Project execution risk owing to large capex** - The company is planning a cumulative capex of ~Rs. 250-300 crore, which is proposed to be funded in a debt-to-equity mix of 75:25. The company has witnessed delays in both its projects due to multiple reasons. 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 the key monitorables. Moreover, the addition of debt will moderate its credit metrics in the medium term.

### Environmental and Social Risks

OAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is environmentally compliant and adheres to various industry standards. Further, it has appropriate waste management systems across its facilities. The company is also compliant with environmental law/regulations pertaining to water and air pollution.

The company's exposure to social risks mainly pertains to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

### Liquidity position: Adequate

OAL's liquidity is expected to remain adequate, supported by undrawn lines of credit. ICRA notes that the company plans to incur a capex of ~Rs. 250-300 crore, which will be partially funded (~25%) through internal accruals, thereby limiting the

increase in free cash balance. Further, considering the high working capital intensity, the working capital requirement is also expected to remain elevated. Nevertheless, ICRA notes that the utilisation of the company's fund-based limits has remained low with average utilisation of ~50-60% in the last 12 months, providing buffer to its liquidity.

## Rating sensitivities

**Positive factors** – ICRA could upgrade OAL's ratings if there is a consistent growth in turnover and profit generation, along with improvement in the working capital cycle, translating into improved debt protection metrics and liquidity profile.

**Negative factors** – Pressure on the ratings could arise in case of a significant decline in the operating income and profitability that would weaken the debt protection metrics and stretch the working capital cycle, impacting OAL's liquidity profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Chemicals</a> <a href="#">Rating Approach - Consolidation</a>
Parent/Group support	Not applicable
Consolidation/Standalone	<b>Consolidation</b> 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 a new unit at Mahad, Maharashtra, under its wholly-owned subsidiary, Oriental Aromatics and Sons Limited.

## Key financial indicators (audited)

OAL Consolidated	FY2021	FY2022	FY023P
Operating income	708.8	868.8	849.1
PAT	101.9	53.3	19.7
OPBDIT/OI	22.0%	10.7%	6.4%
PAT/OI	14.4%	6.1%	2.3%
Total outside liabilities/Tangible net worth (times)	0.34	0.43	0.58
Total debt/OPBDIT (times)	0.50	1.50	4.25
Interest coverage (times)	67.4	22.9	4.2

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				June 08, 2023	Jan 20, 2023	Jan 04, 2022	Dec 21, 2021	Jan 08, 2021
1	Long term fund-based Term loan	150.0	45.0	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Long term/Short term – Fund based/Non fund based	270.65	--	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Negative)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+
2	Long term – Unallocated	--	--	-	-	-	[ICRA]A (Stable)	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based/Non-fund based limits	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 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	Long term fund-based – Term loan	Mar-Jun 2021	3M Repo + 1.5%; 3M T Bill + 2.09%	FY2027	150.0	[ICRA]A- (Stable)
NA	Long term/Short term- Fund based/Non fund based	NA	NA	NA	270.65	[ICRA]A- (Stable)/ [ICRA]A2+

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	Ownership	Consolidation Approach
Oriental Aromatics and Sons Limited	100%	Full Consolidation

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