March 18, 2024

Organic India Private Limited: Long-term rating upgraded and removed from Issuer Not-Cooperating Category; Placed on Rating Watch with Positive Implication

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	0.00	90.00	[ICRA]BBB+; Rating upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category; Placed on rating watch with positive implication
Long Term – Fund Based – Term Loan	12.00	10.00	[ICRA]BBB+; Rating upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and removed from Issuer Not Cooperating category; Placed on rating watch with positive implication
Long Term/Short Term – Fund Based – Cash Credit	88.00	0.00	[ICRA]A4; removed from Issuer Not Cooperating category and withdrawn
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of Organic India Private Limited (OIPL), which include OIPL and its subsidiary, Organic India USA LLC.

The ratings have been removed from the Issuer Not Cooperating category and the long-term rating has been upgraded. The rating action follows co-operation from the entity in sharing required information. Also, the short-term rating of [ICRA]A4 has been withdrawn as the company does not have any instrument to be rated on short-term rating scale. Additionally, the long-term rating has been placed on Rating Watch with Positive Implication.

The long-term rating has been placed on Watch with Positive Implication considering the sale purchase agreement between OIPL's parent company, Fabindia Limited, and Tata Consumer Products Limited (TCPL) for the proposed acquisition of up to 100% of the equity share capital of OIPL by TCPL. The entire transaction is expected to be completed by April 2024. The rating watch factors in the expected positive implication of the change in the shareholding with the company becoming a wholly-owned subsidiary of TCPL (rated at [ICRA]AAA (Stable)/[ICRA]A1+). ICRA expects this to improve OIPL's operational as well as financial risk profiles, including financial flexibility. ICRA will continue to watch and monitor developments related to the closure of the transaction based on which the rating watch could be resolved.

The assigned rating continues to take into consideration OIPL's strong parentage and brand positioning of OIPL's holding company, Fabindia, which support the company's operations as well as its financial risk profile. The rating is also supported by the extensive experience of the promoters, the company's established presence in the organic food industry through its brand, an established distribution network and a diversified presence. Further, the rating considers increasing consumer awareness for organic products and ayurvedic medicines due to their perceived health and wellness benefits.

The rating, however, remains constrained by OIPL's weakened financial performance over the last few years, as reflected by a decline in its profitability and moderation in debt coverage metrics. ICRA notes that the company's profitability declined in

FY2023 owing to operating losses incurred by its subsidiary. Further, the company made large write-offs towards the loss-making subsidiaries and associates, which resulted in losses at the net level. Following the said write-offs in FY2023, the company is likely to report operating profitability in FY2024, though nominal. The rating continues to be constrained due to the high working capital intensive nature of its operations, which exerted pressure on the company's liquidity profile amid a subdued performance. OIPL's revenues remain concentrated towards tea and are exposed to intense competition from other players in the industry. While its established brand lends advantage, the selling and promotional expenses remain high to drive acceptance of organic products.

Key rating drivers and their description

Credit strengths

Strong parentage and Fabindia's brand positioning – OIPL is owned by Fabindia, which has a 63.79% stake as of March 2023, and has a strong presence on OIPL's board. Fabindia has a strong brand positioning in the ethnic/handicraft retail segment, home care, personal care and jewellery segments. Fabindia has a diversified presence all over India through its retail chain, which would keep on providing operational support to OIPL to sell its organic products. Further, Fabindia is expected to provide timely financial support to OIPL, in case of any need.

Extensive experience of promoters in organic food products industry – Incorporated in 1997, the company operates in a wide range of organic fast-moving consumer goods (FMCG) segment like tea, ayurvedic medicines formulations, body care and other products like cereals, ghee etc. The promoters have extensive experience of more than two decades and an established track record in the retail and food product business.

Established market position through Organic India brand and large distributor network – OIPL has a strong brand position in the organic food products segment with a product portfolio of tea infusions, ayurvedic medicines, psyllium husk, spices, dehydrated and packaged food and other organic products. The company sells the entire range of products under its own brand, Organic India, in the domestic and overseas markets. It also has a diversified presence in 44 countries on its own as well as through its subsidiaries. In addition, OIPL has established distribution channels with network of around 30,000 retailers and has been generating ~60% of its total revenue from the dealer and distributor channels. The balance comes from its exclusive stores, modern trade (supermarkets), wellness stores, Fabindia stores and e-commerce.

Favourable demand outlook for organic food industry – Globally, the market for organic food has been experiencing strong growth. Increase in health and quality awareness is driving the demand for organic food. Strong economic growth, urbanisation and rising income levels are expected to increase consumer expenditure on health and wellness products in the long term.

Credit challenges

Weakened financial risk profile – The company's financial performance has deteriorated sharply in FY2023, as reflected by losses at the operating and net levels, which can be majorly attributed to the losses incurred by its subsidiaries and associate entities. Moreover, large write-offs related to the loss-making subsidiaries and associate entities resulted in net loss of Rs. 87.6 crore in FY2023. Nevertheless, the company is likely to report profits in FY2024, though nominal, with some pressure on its margins, as per ICRA's estimates. Owing to a decline in its profitability, large losses and a reduction in its net worth, the company's capital structure and the coverage indicators further weakened in FY2023, as reflected by the total outside liabilities vis-à-vis the tangible net worth (TOL/TNW) ratio of 1.3 times as on March 31, 2023, against 0.8 times as on March 31, 2022, and negative interest coverage of 4.1 times in FY2023 against 4.2 times in FY2022.

Moderate liquidity position, given high working capital requirements – The company's liquidity is impacted by its high inventory holdings and high debtor payment period, leading to high working capital requirement. However, the company's utilisation of the working capital limit remains moderate, leaving sufficient buffer of Rs. 45.0 crore in working capital limit for any urgent requirement.

Intensely competitive organic tea segment – OIPL's revenues remain concentrated towards tea as OIPL derives 37% of its revenue from tea and tea infusions and is exposed to intense competition from other players in the industry because of the presence of numerous small and a few reputed big players. However, the company is establishing its presence in other segments also like ayurvedic medicines, body care, organic foods etc.

Liquidity position: Adequate

OIPL's liquidity position is **adequate** on the back of positive fund flow from operations expected in FY2024 (around Rs. 15.0 crore) and future years along with sufficient buffer in the working capital limits for any urgent requirement. The company has nominal repayment obligations in FY2024/FY2025 and has no major capex plan in the near term. As on March 31, 2023, the company had ~Rs. 5.0 crore of free cash and liquid investment and a buffer of Rs. 45.0 crore as cash credit limit with adequate drawing power. ICRA notes that OIPL's free cash levels have declined over the past few years amid net losses and high working capital intensity. Nevertheless, its strong parentage and availability of timely financial support lend comfort.

Rating sensitivities

Positive factors – The Watch on the long-term rating could be resolved after the completion of the proposed acquisition of OIPL's entire stake by TCPL, which would positively impact the rating. Additionally, ICRA could upgrade the rating if OIPL demonstrates a significant increase in its revenue and profit, leading to an improvement in net cash accruals and debt coverage metrics on a sustained basis. Further, any material improvement in the parent company's credit profile could result in a rating upgrade.

Negative factors – ICRA could downgrade the rating if there is a sharp drop in OIPL's revenue and a further decline in its profitability on a sustained basis. Specific credit metric that could result in rating downgrade includes DSCR of less than 1.8 times on a sustained basis. Further, material weakening in linkages with the parent company or a significant deterioration in its credit profile could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Fast-Moving Consumer Goods (FMCG) Industry Policy on Withdrawal of Credit Rating
Parent/Group support	The rating assigned to OIPL factors in the likely operational and strategic support of the parent company, Fabindia, considering the close business linkages between the two entities.; ICRA also expects Fabindia would provide timely financial support to OIPL, in case of any cashflow mismatch.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of OIPL.

About the company

OIPL, established in 1997, is an organic health and wellness product manufacturing company with its plant in Lucknow. Its product profile includes organically certified tulsi herbal infusions, herbal supplements, ayurvedic medicines and other organic food products and spices. OIPL's network of farmers are in Uttar Pradesh, Rajasthan, Gujarat, and Madhya Pradesh. The company was founded by Mr. Yoav Lev and Mrs. Holly B Lev in 1997. Fabindia holds a 63.79% equity stake in OIPL and shares a common management. In FY2023, Prem Ji Invest purchased a 15% stake in OIPL as a part of a secondary sale from the promoter group. Recently, Fabindia has entered into an agreement with Tata Consumer Products Limited (TCPL) for the proposed acquisition of the entire 100% stake in OIPL by TCPL.

Key financial indicators (audited)

OIPL Consolidated	FY2022	FY2023
Operating income	361.8	324.4
PAT	6.88	-87.6
OPBDIT/OI	9.8%	-12.0%
PAT/OI	1.9%	-27.0%
Total outside liabilities/Tangible net worth (times)	0.8x	1.3x
Total debt/OPBDIT (times)	3.3x	-3.7x
Interest coverage (times)	4.2x	-4.1x

Source: OIPL, ICRA Research

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

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 on Jan 31, 2024 (Rs. crore) *	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 18, 2024	Dec 07, 2023	Jun 08, 2023	Jul 21, 2022	Oct 07, 2021	Jul 10, 2020
1	**Cash Credit**	Long Term	90.00	NA	[ICRA]BBB+ %	-	-	-	-	-
2	**Term Loan**	Long Term	10.00	10.00	[ICRA]BBB+ %	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Cash Credit**	Long Term Short Term	-	NA	[ICRA]A4; Withdrawn	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING /[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING /[ICRA]A2 ISSUER NOT COOPERATING	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1 +	[ICRA]A+ (Stable)/ [ICRA]A1 +
4	**Unallocated**	Long Term Short Term	-	NA	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-

%: Rating Watch with Positive Implication

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – 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 – Cash Credit**	NA	NA	NA	90.00	[ICRA]BBB+; Rating Watch with Positive Implication
NA	**Long-term Fund-based – Term Loan**	July, 2022	NA	FY2027	10.00	[ICRA]BBB+; Rating Watch with Positive Implication
NA	**Long Term/Short Term – Fund Based – Cash Credit**	NA	NA	NA	--	[ICRA]A4; Withdrawn

Source: OIPL

Annexure II: List of entities considered for consolidated analysis

Company Name	OIPL Ownership	Consolidation Approach
Organic India Private Limited*	100.00% (rated entity)	Full Consolidation
Organic India USA LLC**	100.00%	Full Consolidation

*Source: OIPL annual report FY2023; *Parent company; **Consolidated along with its subsidiary*
Note: ICRA has taken a consolidated view of the parent (OIPL), its subsidiaries while assigning the ratings.

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About ICRA Limited:

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