

July 16, 2024

Fine Organic Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based/Non-fund based limits	86.00	71.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	86.00	71.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Fine Organic Industries Limited's (FOIL) established marked position and the extensive experience of the promoters in the oleochemicals industry for more than five decades. The ratings also factor in its long-standing relationship with a diversified clientele which includes reputed players from the petrochemical, cosmetics and food industries. The company has a vast portfolio of 450+ products which find application in multiple industries. The ratings also factor in the company's strong product and process innovation capabilities, supported by a strong in-house research and development (R&D) facility. The ratings are further backed by FOIL's robust financial risk profile, characterised by healthy cash flow from operations, nil debt levels as on FY2024-end and large unencumbered cash balances. The company's TD/OPBDITA was 0.01x as on March 31, 2024 (including lease liabilities), vis-à-vis 0.03x as on March 31, 2023, as the company paid off its term debt liabilities in FY2024. The liquidity profile of the company remains strong with ~Rs. 1,048.5 crore of cash and cash equivalents as on March 31, 2024, and unutilised working capital facilities.

The ratings are, constrained by the susceptibility of the company's profitability to volatility in raw material prices, evident from the variation in its operating margins over the last few years. However, ICRA notes that the company has been able to pass on the price impact with some lag and maintain average margins over a certain period. The ratings also factor in the exposure of FOIL's profitability to adverse exchange rate movements; however, the company undertakes hedging to mitigate the risk.

ICRA notes that the company has capex plans to expand its capacity in the same line of business and may also look for expansion in the overseas market. ICRA expects the company's credit profile to remain healthy, despite the planned capex plans as healthy cash flow from operations will keep the reliance on external debt limited. The overall capex outlay and the funding of the capex will remain the key monitorable, going forward. Nevertheless, the company will remain exposed to project execution risks.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from a favourable demand for its products which will support the incremental volume uptick and cash generation from operations. The healthy cash flow from operations will keep the credit profile stable despite the planned sizeable capex.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in manufacturing additives - FOIL, a part of the Fine Organics Group founded in 1970, manufactures oleochemical derivatives for various end-user industries such as food, plastic, rubber, paint, ink, cosmetics, coatings, feed nutrition etc. The company manufactures more than 450 different products and has various global certifications for them.

Strong in-house R&D facilities for process improvement and product innovation – FOIL has an in-house R&D centre with strong capabilities. The company's in-house product innovation, product application and engineering improvement help it cater to the market's needs and gain an edge over other global players.

Reputed customer profile with low customer concentration risk – The company has a well-diversified and reputed customer base in both the petrochemical and food sectors. As indicated by the management, the company's sales are diversified with no customer accounting for more than 5% of the overall sales.

Long-term relationships with suppliers – About 65-70% of the company's raw material is procured from the domestic market. The company has healthy relationships with its suppliers, which ensure uninterrupted supply of raw materials and mitigate the impact of supply risks.

Strong financial profile – The company's overall financial risk profile remains strong, characterised by healthy cash flow from operations which have resulted in the company remaining debt-free. Its operating margins have remained healthy at 25.2% in FY2024 (27.5% in FY2023) which has supported healthy operating profits. With moderate capex undertaken over the last couple of years and manageable working capital intensity, the operating cash flows have remained robust resulting in the company's cash and cash equivalents rising to Rs. 1,048.5 crore as on March 31, 2024.

Credit challenges

Vulnerability to raw material price fluctuation - The company's key raw material is vegetable oil and its derivatives, whose prices have been volatile. The prices of the company's products are based on vegetable oil prices. In the recent past, the company has shifted to shorter term contracts, given the high volatility in the market. However, now, as vegetable prices are expected to remain stable, they are now working with comparatively longer contracts.

Profitability exposed to adverse fluctuation in forex rates - The company's profitability is vulnerable to the adverse movements in foreign currency as ~50-60% of its sales come from exports, while it imports ~30-35% of its total raw material requirement. However, the risk is mitigated largely by the hedging undertaken by the company, the debt repayments in foreign currency and the forex hedging of imports and exports.

Planned capex going forward exposes company to project execution risks: The company is embarking on a capacity expansion program in its existing line of business. The company may also look at setting up a manufacturing facility outside India, the plan although remains in nascent stages. With the upcoming capex plans the company will remain exposed to project execution risks. However, given that the expansion is in the same line of business and company has in-house project engineering capabilities, the risk is mitigated to a large extent.

ESG Risks

Given the nature of the product manufactured by FOIL, the company is not exposed to environmental risk. Majority of the products are bio-based and bio-degradable. However, as some of the end-user industries e.g. polymers may remain exposed to environmental risks. However, given a diversified customer profile, FOIL is not expected to witness a significant impact on its operations.

In terms of social consideration, the product demand as well as operations for the company are unlikely to be significantly impacted. Further, operating responsibly for chemical players is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. However, given the strong compliance followed by FOIL in its operations as indicated by Zero Liquid Discharge (ZLD) plants, the company has not experienced/reported any incident that suggests safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a key monitorable.

Liquidity position: Strong

FOIL's liquidity position, on a consolidated basis, is expected to remain strong going forward with expectation of healthy net cash accruals on an ongoing basis, ~Rs. 1,048.5 crore of cash and cash equivalents as on March 31, 2024, and unutilised fund-based limits of Rs. 71 crores. While FOIL has plans to undertake capacity expansion, ICRA expects the company's liquidity position to remain strong as the current free cash balance and incremental cash flow from operations will be more than adequate to fund the expected capex plan.

Rating sensitivities

Positive factors – ICRA could upgrade FOIL's ratings if the company demonstrates a substantial increase in its scale of operations while maintaining healthy operating margins, working capital intensity and capital structure on a sustained basis.

Negative factors – Pressure on the ratings could emerge if the company undertakes sizeable debt-funded capital expenditure or acquisition, which will impact its capital structure and liquidity and increase the total debt/OPBDITA to more than 1.0 times on a sustained basis. Additionally, any significant deterioration in the company's operating margin and working capital cycle impacting its cash flows and liquidity may warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Fine Organic Industries Limited. As on March 31, 2024, the company had three subsidiaries and two JVs, which are enlisted in Annexure II

About the company

Fine Organic Industries Limited (FOIL) is the flagship company of the Fine Organic Group, founded in 1970 by (Late) Mr. Ramesh Shah, a Mumbai-based businessman with experience in chemical trading, and (Late) Mr. Prakash Kamat, a skilled chemical technocrat. The Group is engaged in the manufacturing of oleochemical additives for various end-user industries such as foods, plastics, rubbers, paints, inks, cosmetics, coatings, feed nutrition etc. FOIL, incorporated in 2002, began operations in 2006 by setting up a manufacturing facility in Ambernath (near Mumbai). In FY2017, FOIL merged with Fine Research and Development Centre Private Limited (FRDCPL) and Fine Speciality Surfactants Private Limited (FSSPL). Previously a private limited company, FOIL was registered as a public limited company in November 2017 and subsequently got listed in July 2018. Currently, FOIL has manufacturing facilities at four locations in Maharashtra – Ambernath, Badlapur, Dombivli and Patalganga.

Key financial indicators (audited)

FOIL Consolidated	FY2023	FY2024
Operating income	3023.2	2123.0
PAT	619.9	414.5
OPBDIT/OI	27.5%	25.2%
PAT/OI	20.5%	19.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	0.03	0.01
Interest coverage (times)	181.7	219.5

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		Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 09, 2024	Jun 20, 2023	Apr 18, 2022	Apr 06, 2021
1	Long-term – Fund-based – Cash credit	Long term	-	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Long-term/Short-term – Fund based/Non-fund based limits	Long term and short term	71.00	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-
3	Long term/Short term – Unallocated	Long term and short term	-	-	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund based/Non-fund based limits	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	Fund-based/Non-fund based limits	NA	NA	NA	71.00	[ICRA]AA (Stable)/[ICRA]A1+

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	FOIL Ownership	Consolidation Approach
Fine Organics (USA) Inc.	100.00%	Full consolidation
Fine Organic Industries (SEZ) Private Limited	100.00%	Full Consolidation
Fine Organics Europe BV	100.00%	Full consolidation
Fine Zeelandia Private Limited	50.00%	Equity Method
Fine Organic Industries (Thailand) Co., Limited	45.00%	Equity Method

Source: Company (As on 31.03.2024)

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About ICRA Limited:

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Branches



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