

October 03, 2024

Organic India Private Limited: Long-term rating upgraded to [ICRA]A-, removed from Rating Watch with Positive Implications and Stable outlook assigned; short-term rating of [ICRA]A2+ assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund Based- Cash Credit	90.00	126.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ Rating Watch with Positive Implications; rating removed from rating Watch with Positive Implications and Stable outlook assigned; assigned for enhanced amount
Long Term- Fund Based-Term Loan	10.00	10.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ Rating Watch with Positive Implications; rating removed from rating Watch with Positive Implications and Stable outlook assigned
Short-term – Interchangeable	0.00	(77.00)	[ICRA]A2+; assigned
Short-term – Non Fund-based Limits	0.00	6.00	[ICRA]A2+; assigned
Total	100.00	142.00	

*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) along with its subsidiary, Organic India USA LLC.

ICRA had earlier placed the long-term rating of OIPL under Watch with Positive Implications after the announcement of the sale purchase agreement between OIPL's parent company, Fabindia Limited, and Tata Consumer Products Limited (TCPL, rated at [ICRA]AAA (Stable)/[ICRA]A1+) for the proposed acquisition of up to 100% of the equity share capital of OIPL by TCPL.

The upgrade in the long-term rating and removal of ratings from Watch factors in the completion of the said acquisition and favourable change in the ownership. TCPL has acquired 99.99% shares of OIPL and the entire transaction got completed in April 2024 and TCPL has taken control of OIPL's operations. Acquisition of the balance stake is expected to be completed shortly. The assigned ratings also factor in ICRA's expectation of improvement in OIPL's business risk profile and financial performance after TCPL's acquisition as OIPL would benefit from TCPL's brand positioning, distribution network and cost efficiencies. The ratings are also supported by the extensive experience of the promoters, the company's established presence in the organic food industry through its own brand and a diversified presence of TCPL in the industry (domestic and overseas). Further, the ratings consider increasing consumer awareness for organic products and ayurvedic medicines due to their perceived health and wellness benefits.

The ratings, however, remain constrained by OIPL's modest financial performance in FY2024, as reflected by a net loss of Rs. 4.48 crore and subdued debt coverage metrics, although there was some improvement compared to the previous fiscal. The company reported an operating profit of Rs. 17.2 crore in FY2024 after posting an operating and PAT loss of ~Rs. 38 crore and ~Rs. 88 crore, respectively in FY2023 owing to the losses incurred by its subsidiaries as well as due to the large write-offs towards the loss-making subsidiaries and associates. The ratings continue to be constrained because of the high working capital intensive nature of its operations, which exert pressure on the company's liquidity profile. OIPL's revenue remain concentrated towards tea/ herbal infusions and ayurvedic medicines, which are exposed to intense competition from other players in the

industry. While its established brand lends advantage, selling and promotional expenses remain high to drive acceptance of organic products.

The Stable outlook on the long-term rating reflects ICRA's opinion that OIPL will continue to benefit from the extensive experience of its promoters in the organic food products industry, with strong parentage and brand positioning of TCPL.

Key rating drivers and their description

Credit strengths

Strong parentage and TCPL's brand positioning – OIPL is owned by TCPL, which currently has a 99.99% stake. The balance stake is expected to be acquired shortly. TCPL has a strong brand image and brand positioning in the food and beverage segment in India and overseas and is among the largest tea companies globally. TCPL has a diversified presence with wide established distribution network, which would keep on providing operational support to OIPL to sell its organic products and expand its reach within and outside India. Further, TCPL 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 products like tea/herbal infusions, ayurvedic medicines, body care and other organic food products like cereals, honey, ghee etc. The key personnel have extensive experience in this line of business and OIPL has an established track record in the retail and food product business.

Established market position through Organic India brand and access to TCPL's large distributor network – OIPL has a strong brand position in the organic food products segment with a product portfolio of tea/herbal infusions, ayurvedic medicines, psyllium husk, spices, dehydrated fruits, 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 around 40 countries on its own as well as through its subsidiary. After TCPL's acquisition, OIPL's distribution channels are likely to increase manifold to ~80,000 unique general retail sale points from the current network of around 25,000 retailers and to 2,000- 2,500 distributors in tier 1 and tier 2 cities from the current level of ~500 distributors. Apart from this, the company will continue to sell through 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

Moderate financial risk profile – The company's financial performance remained modest in FY2024, as reflected by a net loss of Rs. 4.48 crore and subdued debt coverage metrics, although there was some improvement compared to the previous fiscal. The company reported an operating profit of Rs. 17.2 crore in FY2024 after posting an operating and PAT loss of ~Rs. 38 crore and ~Rs. 88 crore, respectively in FY2023 owing to losses incurred by its subsidiaries as well as due to the large write-offs towards the loss-making subsidiaries and associates. Nevertheless, the company is likely to report net profit in FY2025 owing to some cost synergies expected to emanate after TCPL's takeover, as per ICRA's estimates. Owing to net losses suffered in the last two years, there was a reduction in its net worth, leading to weakening of the company's capital structure and the coverage indicators in FY2024, as reflected by the total outside liabilities vis-à-vis the tangible net worth (TOL/TNW) ratio of ~1.5 times and interest coverage of ~1.3 times as on March 31, 2024. However, the company's financial performance is expected to improve in FY2025 after acquisition by TCPL.

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. Going forward, the working capital intensity of operations is likely to improve as a substantial portion of the sale would be routed through TCPL, to which a significantly shorter credit period will be offered. However, the company's utilisation of the working capital limit remains

moderate, leaving sufficient buffer of around Rs. 42.0 crore (as on March 31, 2024) in working capital limit for any urgent requirement.

Intensely competitive organic tea segment – OIPL's revenues remain concentrated towards tea/herbal infusions and ayurvedic medicine, which contributed ~67% to OIPL's revenue in FY2024. The company is exposed to intense competition from other players in the industry because of the presence of numerous small and a few reputed big players in the organic segment. However, the company is establishing its presence in other segments also like body care, organic foods etc., although a strong growth in these segments is yet to be demonstrated.

Liquidity position: Adequate

OIPL's liquidity position is adequate on the back of positive fund flow from operations in FY2024 (around Rs. 4.0 crore) and is expected to improve substantially in FY2025 with a likely increase in the operating margin. The company has debt repayment obligations of around Rs. 3.14 crore each in FY2025 and FY2026 (excluding one-time repayment of ~Rs. 14 crore of unsecured loan of subsidiary in FY2025) and has no major capex plan in the near term. As on March 31, 2024, the company had ~Rs. 5.17 crore of free cash and liquid investment and a buffer of around Rs. 42.0 crore in its working capital limit. ICRA also notes OIPL's strong parentage and TCPL's commitment to timely support OIPL in case of any funding requirement.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if OIPL demonstrates a substantial improvement in its revenue and earnings, leading to an improvement in net cash accruals and debt coverage ratios and liquidity.

Negative factors – ICRA could downgrade the ratings if there is a sharp drop in OIPL's revenue and profitability on a sustained basis. Material weakening in linkages with the parent company or a significant deterioration in its credit profile could result in ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	The ratings assigned to OIPL factors in the likely operational and strategic support of the parent company, TCPL, considering the close business linkages between the two entities. ICRA also expects TCPL 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 along with its subsidiary as mentioned in Annexure II.

About the company

OIPL, established in 1997, is an organic health and wellness product manufacturing company with its plant in Barabanki, Uttar Pradesh. 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. Till March 2024, FabIndia had a 63.79% equity stake in OIPL and was sharing a common management. In April 2024, Tata Consumer Products Limited acquired a 99.99% equity stake in OIPL and took control over its operations.

Key financial indicators - Consolidated (audited)

OIPL Consolidated	FY2023	FY2024
Operating income	296.4	332.8
PAT	-87.5	-4.5
OPBDIT/OI	-12.7%	5.2%
PAT/OI	-29.5%	-1.3%
Total outside liabilities/Tangible net worth (times)	1.2	1.5
Total debt/OPBDIT (times)	-3.8	8.3
Interest coverage (times)	-3.4	1.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Key financial indicators - Standalone (audited)

OIPL Standalone	FY2023	FY2024
Operating income	239.6	274.9
PAT	-44.3	-2.1
OPBDIT/OI	-7.3%	8.2%
PAT/OI	-18.5%	-0.8%
Total outside liabilities/Tangible net worth (times)	0.7	0.8
Total debt/OPBDIT (times)	-6.0	4.5
Interest coverage (times)	-2.0	2.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (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
			Oct 3 2024	18-Mar-24	07-Dec-23	8-Jun-23	21-Jul-22	07-Oct-21
1 Cash Credit	Long Term	126.00	[ICRA]A-(Stable)	[ICRA]BBB+ Rating Watch with Positive Implications	-	-	-	-
2 Term Loan	Long Term	10.00	[ICRA]A-(Stable)	[ICRA]BBB+ Rating Watch with Positive Implications	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Cash Credit	Long-Term/Short-Term	-	-	[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+
4 Interchangeable	Short-Term	(77.00)	[ICRA]A2+	-	-	-	-	-
5 Non Fund-based Limits	Short-Term	6.00	[ICRA]A2+	-	-	-	-	-
6 Unallocated	Long term and short term	-	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund Based- Cash Credit	Simple
Long Term- Fund Based-Term Loan	Simple
Short-term – Interchangeable	Very Simple
Short-term – Non Fund-based Limits	Very 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	126.00	[ICRA]A- (Stable)
NA	Long-term Fund-based – Term Loan	July, 2022	5-6%	FY2027	10.00	[ICRA]A- (Stable)
NA	Short-term – Interchangeable	NA	NA	NA	(77.00)	[ICRA]A2+
NA	Short-term – Non Fund-based Limits	NA	NA	NA	6.00	[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	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 FY2024; *Parent company; **Consolidated along with its subsidiary, The Clean Programme Corp (50.01% holding by Organic India USA LLC). The stake in The Clean Programme Corp was transferred to its initial owner in FY2024.

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Lakhan Kumar Agarwal
+91 88 8237 5734
lakhan.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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