Fine Organic Industries Limited

January 09, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits – Cash Credit	65.00	65.00	[ICRA]A+; Reaffirmed and outlook revised to Positive from Stable
Non-fund based limits	10.25	10.25	[ICRA]A1+; Upgraded from [ICRA]A1
Total	**75.25**	**75.25**	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the short-term rating favourably factors in the strong liquidity profile of the company reflected by positive retained cash flows as well as large unutilised fund based working capital bank limits. The company's overall financial profile continues to remain strong driven by increasing scale of operations resulting in higher cash accruals, healthy operating margins, and comfortable gearing levels and debt coverage metrics. The revision in rating outlook to 'Positive' factors in the expected improvement in the company's scale of operations post the successful completion of ongoing capacity expansion at its facilities in Ambernath and Patalganga (Maharashtra) coupled with healthy demand indicators for its products that would support the gradual ramp up of the new capacities. While the company has availed a fresh term loan for the capex, ICRA expects the gearing and debt coverage metrics to continue to remain comfortable over the near to medium term.

The ratings continue to positively take into account the long and proven track record of the company's promoters in development and manufacturing of oleochemical derivatives. The ratings also consider the low customer concentration risks and the long-term relationships enjoyed by the company with its domestic and overseas customers, that include reputed players in the petrochemicals and food industry. Further, the company has a diversified product profile that finds application in various end-user industries, which reduces the demand risks associated with a single product or industry to some extent. ICRA also favourably considers the company's strong process improvement and product innovation capabilities supported by a strong in-house research and development facility.

The ratings are, however, constrained by the exposure of the company's profitability to adverse movements in raw material prices since the contracts with its customers are typically 'fixed-price' in nature. The ratings also take into account the exposure to adverse fluctuations in foreign currency rates on the unhedged forex position. Further, the large-size capex planned by the company in the medium term exposes it to any material time and cost overruns. The company is also expected to provide moderate support to its recently commissioned joint venture (JV) with Zeelandia until the JV's products gain acceptance in the domestic market and ramps up its operations. Any larger-than-expected support would be a rating sensitivity.

Outlook: Positive

The positive outlook reflects ICRA's belief that FOIL will benefit from the ongoing capex in terms of scaling up of its revenues as well as cash accruals driven by healthy demand indicators for its products. The ratings may be upgraded if the new capacities are commissioned in a timely manner and ramp up operations as per expectations, , post-commissioning, while maintaining the healthy profitability levels. The outlook may be revised to 'Stable' if the debt-funded capex or the investments in the joint venture projects are higher-than-expected, or there is a material delay in execution of the projects.

Key rating drivers

Credit strengths

Long track record of promoters in manufacturing of additives – FOIL, a flagship company of the Fine Organic Group founded in 1970, is engaged in the manufacturing of oleochemical derivatives for various end-user industries such as foods, plastics, rubbers, paints, inks, cosmetics, coatings, textile auxiliaries, lubes etc. The company manufactures more than 200 different products and has various global certifications in place for its products.

Strong in-house research and development facilities for process improvement and product innovations - The Fine Organic Group has a dedicated research and development company, Fine Research and Development Centre Private Limited (FRDCPL), which was amalgamated with FOIL (w.e.f. April 1, 2015). The company's in-house product innovations and engineering improvements to build advanced machinery help it gain an edge over other local players.

Reputed customer profile with low customer concentration - The company has a well-diversified and reputed customer base. In the petrochemical segment, FOIL caters to companies like Reliance Industries Limited, GAIL, Haldia Petrochemicals Limited, SABIC (Saudi Arabia), Petronas (Malaysia), Braskem (Brazil), Petkim (Turkey), Quapco (Qatar), Exxon Mobil, Dow Chemicals, etc. Further, in the foods segment, the company supplies its products to companies like Cadbury, Coca Cola, Britannia, Parle, etc. The company's sales are diversified with no customer accounting for more than 5% of the overall sales.

Strong financial profile – The company's operating income has grown at a compounded annual growth rate (CAGR) of 11% between FY2014 and FY2018. The growth rate has improved further to 39% (YoY) in H1 FY2019 driven by healthy demand indicators for its products, and increase in product realisations. FOIL has maintained healthy operating margins (18%~20%) despite volatility in raw material prices reflecting its efficient procurement practices. The company's gearing continues to remain low (0.1 time as on March 31, 2018). The company's debt coverage metrics continues to remain healthy due to healthy cash accruals and limited borrowings. The overall liquidity profile is strong reflected by positive retained cash flows and large unutilised fund based working capital bank limits.

Credit challenges

Vulnerability to adverse movements in raw material prices – The company's key raw materials are vegetable oil, palm oil and palm oil-based derivatives, the prices of which have been volatile. The company is thus exposed to any sharp changes in the input prices since its contracts are on fixed-price basis, though the company's longstanding relationship with its customers and suppliers has allowed it to protect its operating margins to a large extent in recent years despite the price volatility.

Company's profitability remains exposed to adverse fluctuations in foreign currency – Given that ~60% of the company's sales are exports, the company's profitability remains vulnerable to adverse movements in foreign currency, though the risk is mitigated to some extent on account of natural hedge from imports and debt repayments in foreign currency.

Large-size capex plans to enhance capacity – The company is currently undertaking capacity expansion at its Ambernath and Patalganga facilities. In addition, the company has equity commitments over the next two years for a planned joint venture in Germany. The company is thus exposed to execution risks pertaining to the projects. In addition, the borrowings would increase from the current levels, though the gearing is still expected to remain comfortable. The ability of the company to ramp up operations of its new facilities, post-commissioning, would remain important. The company is also expected to provide modest support to its recently commissioned facility under a JV with Zeelandia until the plant ramps up its operations.

Liquidity Position:

FOIL's liquidity profile remains strong supported by healthy profitability and steady working capital resulting in positive retained cash flows. In addition, the fund based limits of Rs. 65 crore is largely unutilised. The fresh term loans availed by the company have a moratorium of 1.5 years which provides sufficient cushion for the company to ramp up operations from the new plant and generate satisfactory cash flows for debt servicing.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Chemical Industry
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Fine Organic Industries Limited. As on March 31, 2018, the Company had 2 subsidiaries and 1 JV, that are enlisted in Annexure-2

About the company:

Fine Organic Industries Limited (FOIL) is the flagship company of the Fine Organic group, founded in 1970 by Mr. Ramesh Shah, a Mumbai-based businessman with experience in chemical trading and Mr. Prakash Kamat, a 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, textile auxiliaries, lubes etc. Incorporated in 2005, FOIL commenced operations in 2006 by setting up a manufacturing facility in Ambernath (near Mumbai). In 2011, FOIL's group company viz. Oleofine Organics (India) Private Limited (Oleofine) was merged with FOIL owing to significant operational, managerial and financial synergies between the two entities. Currently, FOIL has manufacturing facilities at three locations in Maharashtra – Ambernath, Badlapur and Dombivli. 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 publicly listed in July 2018.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	779.2	851.6
PAT (Rs. crore)	77.9	95.3
OPBDIT/OI (%)	18.6%	18.6%
RoCE (%)	38.5%	42.7%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.3	0.3
Interest coverage (times)	33.1	50.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2015 June 2014
1	Fund Based Limits – Cash Credit	Long Term	65.00	NA	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Non-Fund Based Limits – LC, BG	Short Term	10.25	NA	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A2+
3	Term Loan	Long Term	--	--	--	---	[ICRA]A (Stable)	[ICRA]A- (Stable)

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits - Cash Credit	-	-	-	65.00	[ICRA]A+ (Positive)
NA	Non-fund based limits	-	-	-	10.25	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fine Organics USA Inc	100%	Full Consolidation
Fine Organics Europe BVBA	100%	Full Consolidation
Fine Zeelandia Private Limited	50%	Equity method

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