

July 10, 2020

Organic India Private Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	70.00	51.60	[ICRA]A+ (Stable); reaffirmed
Fund Based - Working Capital	25.00	48.40	[ICRA]A+ (Stable)/ [ICRA]A1+: reaffirmed
Non-fund Based	5.00	0.00	-
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings reaffirmation takes into account Organic India Private Limited's (OIPL) established presence in the organic food industry, where it is one of the largest players, selling products through its brand, Organic India. The ratings continue to draw comfort from the extensive experience of the promoters in the industry, with an operational track record of around three decades. ICRA also notes that the demand outlook for the industry remains favourable, especially amid the novel coronavirus (Covid-19) pandemic, driven by the increasing awareness among the people to use organic products and ayurvedic medicines due to their perceived benefits in boosting immunity. The sustained marketing undertaken by OIPL along with inorganic acquisitions have played a major role in fuelling the company's growth, which is reflected in growth in the operating income (OI) to Rs. 370 crore in FY2020 (P) from Rs. 175 crore in FY2015. The ratings are also supported by the comfortable financial profile of the company characterised by low gearing levels of 0.61 times and healthy interest coverage of 3.53 times in FY2020 (P). The successful commissioning of the new manufacturing facility (commenced operations in Q4 FY2019) is also expected to support the increasing demand and geographic diversification in the near to medium term. OIPL also entered into an agreement with Nutriwel Health India Pvt. Ltd. (NHIPL) to market its products in the domestic market, which received a good response during the initial phase. These initiatives are expected to create brand awareness and improve growth prospects in the medium term. ICRA also takes comfort from the marketing and strategic support from Fabindia Overseas Private Limited (Fabindia), which holds a 53% stake in OIPL.

The rating, however, remains constrained by the fact that OIPL has incurred a significant capital expenditure in constructing the new manufacturing facility, which has impacted the return indicators. ICRA also takes note of the company's declining operating profit margins over the past few years to 7.62% in FY2020 (P) from 26.37% in FY2015, owing to the rising raw material costs, and employee and marketing expenses. Moreover, the sharp decline in profitability in FY2020 (P) compared to FY2019 was attributable partly to disruption of business operations for 10-15 days in March 2020 due to the impact of the Covid-19 pandemic. However, the profitability is likely to improve in FY2021, backed by healthy demand. The ratings also take into account the subdued performance of both the subsidiaries—Organic India USA LLC (OIUL) and The Clean Program Corp (TCPC). The ratings also remain constrained by the working capital-intensive nature of the company's operations on account of high inventory levels and elevated Net Debt/OPBIDTA levels.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that OIPL would continue to benefit from its dominant position and established track record in the organic food products industry. This apart, increasing demand of organic products would play a key role in the company's growth in the future.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the organic food products industry – OIPL commenced business in 1997 in Lucknow (Uttar Pradesh) as an organic health and wellness products manufacturing company. The promoters have extensive experience, having started the business even before 1997.

Established market position through Organic India brand and efficient distributor channel – OIPL has a strong brand position in the organic food products segment with a product portfolio comprising varieties of *tulsi* teas, 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 name, Organic India, in the domestic and overseas markets. It also has a diversified presence in more than 40 countries, on its own and through its subsidiary. In addition, OIPL has strong distributor channels and has been generating more than 70% of its total revenue from the dealer and distributor channels. The balance comes from its exclusive stores, modern trade (super markets), wellness stores, e-commerce and tele calling.

Strong brand positioning of Fabindia and common management – Fabindia holds a 53% stake in OIPL and has a strong representation on the company's board. Fabindia has a strong brand positioning in the ethnic/handicraft retail segment and has been making inroads in the home products, personal care products, organic food, wellness centres and jewellery segments. The common management and Fabindia's diversified presence across India are expected to provide OIPL a strong platform to grow further.

Increasing sales turnover and positive demand outlook – OIPL's revenues have been increasing due to sustained marketing effort, and continuous product innovations. The growth has also been supported by the acquisitions undertaken in the recent past and diversification to new geographies. The demand for organic products and ayurvedic medicines has been improving due to increasing consumer awareness, especially amid the Covid-19 pandemic.

Comfortable liquidity and coverage indicators – OIPL has comfortable liquidity for the repayment of term-loan instalment and additional working capital requirement, if any. The company's interest coverage is also comfortable at 3.53 times in FY2020 (P).

Credit challenges

Declining operating profit margins – OIPL's operating margins have been declining because of the rising raw material costs (also including packing material), employee expenses and marketing expenses, coupled with the weak profitability of its subsidiaries. Moreover, there was a sharp decline in the company's profitability in FY2020 (P) compared to FY2019, due to disruption of business operations for 10-15 days in March 2020 due to the Covid-19 pandemic. However, the profitability is likely to improve in FY2021 as demand has returned to healthy levels. The increase in the employee and marketing expenses is in line with the company's business strategy to augment sales for utilisation of the additional capacity generated after setting up of the new manufacturing unit.

Sizeable capital expenditure undertaken in the recent past, impacting returns – OIPL has incurred high capital expenditure in FY2018 and FY2019, which is impacting its profitability and return indicators. The company has incurred capex of over Rs. 100 crore (Rs. 75-crore debt funded) in establishing a new manufacturing unit with additional production capacity.

Revenue concentration in intensely competitive organic tea segment – About 50% of OIPL's revenues are derived from the intensely competitive organic tea segment. OIPL holds a strong position in the segment with a variety of *tulsi* teas. This apart, the company is involved in various product innovations in the ayurvedic medicine segment, which is expected to reduce its dependence on the tea segment.

Liquidity position: Adequate

OIPL's liquidity position is **adequate** due to healthy cash and liquid investments, which are sufficient to meet its additional working capital requirements and term loan repayments. The company has also decided not to pay any dividend for FY2020, which has supported its liquidity.

Rating sensitivities

Positive trigger: ICRA could upgrade the ratings if OIPL demonstrates a sustained improvement in its operating profit margin, leading to an improvement in net cash accruals and debt coverage ratio. In terms of specific credit metrics, net debt/OPBIDTA less than 1.5 times on a sustained basis will be a positive for the ratings. The improvement in the parent company's credit profile will also be a positive trigger.

Negative trigger: ICRA could downgrade the ratings in case there is deterioration in the financial risk profile due to weak profitability. In terms of specific credit metrics, net debt/OPBIDTA more than 2.5 times on a sustained basis will be a negative trigger for the ratings. ICRA could also downgrade OIPL's rating in case there is a significant deterioration in the parent company's credit risk profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating assigned to OIPL factors in the likelihood of the parent company, Fabindia, extending financial support to it because of close business linkages between the two entities; ICRA also expects Fabindia to extend financial support to OIPL out of its need to protect its reputation from the consequences of a subsidiary company's distress
Consolidation /Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of OIPL; OIPL has two subsidiaries (listed in Annexure-2)

About the company

OIPL, established in 1997, is an organic health and wellness product manufacturing company. Its manufacturing facility is located in Lucknow, Uttar Pradesh. Its product profile includes organically certified *tulsi* herbal infusions, herbal supplements, ayurvedic medicines and other organic food products and spices. OIPL procures raw materials through its network of farmers, wild crafters, who source it from farmlands and forests. OIPL's network of farmers are in Uttar Pradesh, Rajasthan, Gujarat, and Madhya Pradesh. The company grows organic crops certified by the internationally and nationally accredited organic certifying agencies such as National Programme for Organic Production (NPOP), Japanese Agriculture Standard (JAS), European Union (EU) regulations and United States Department of Agriculture (USDA) Organic and Orthodox Union (OU) Kosher certification. The company has a base of more than 2,000 farmers undertaking organic cultivation of around 10,000 acres of land. The company was founded by Mr. Yoav Lev and Mrs. Holly B Lev in 1997. Fabindia took over a 40% stake in the company in 2013 and subsequently increased it to 53% in FY2017. Mr. William Bissell (Managing Director, Fabindia), Mr. Mukesh Kumar Chouhan (Chief Financial Officer, Fabindia) and Ms. Elizabeth Nanda (Chief of Human Resources & Training, Fabindia) are also on the board of OIPL.

Fabindia was founded in 1960 by Mr. John Bissell. The company started business as an exporter of home furnishings. The first Fabindia retail store was opened in Greater Kailash, New Delhi in 1975. By the early 1980s, Fabindia was established as a renowned brand for garments made from handwoven and handprinted fabrics. The non-textile range was added in 2000, while organic foods were added in 2004, personal care products were introduced in 2006 and handcrafted

jewellery was introduced in 2008. It has over 274 stores (as on March 2018) across India and abroad, and is managed by Mr. William Bissell, son of Mr. John Bissell. Mr. William Bissell holds a 22.88% stake, JLW Partners Holding Inc holds a 22.62% stake, PI Opportunities – 1 (Premji Invest) holds a 25.86% stake and Mr. Madhukar Khera has a 6.19% stake in Fabindia.

Key financial indicators (Audited)*

	FY2018	FY2019
Operating Income (Rs. crore)	270.98	338.67
PAT (Rs. crore)	28.54	20.56
OPBDITA/ OI (%)	15.76%	11.65%
PAT (%)	10.53%	6.07%
Total Outside Liability/ Total Net worth (times)	0.78x	0.85x
Net Debt/ OPBDITA (times)	2.15x	3.00x
Interest Coverage (times)	20.56x	8.45x

Source: Company date, * OIPL's consolidated financial statement

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 10, 2020	Date & Rating in FY2019 February 8, 2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan	51.60	51.60	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2	Cash Credit/WCDL	48.40	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-
3	Bank Guarantee	-	-	-	[ICRA]A1+	-	-

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	Term Loan	September 2017	-	September 2022	51.60	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL	-	-	-	48.40	[ICRA]A+ (Stable)/A1+

Source: OIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Organic India USA LLC	100%	Full consolidation
The Clean Program Corp	50%	Full consolidation

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