July 21, 2022

Organic India Private Limited: Long-term rating reaffirmed; short-term rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	31.83	11.66	[ICRA]A+ (Stable); reaffirmed
Fund-based – Cash Credits/WCDL	68.17	75.00	[ICRA]A+ (Stable)/[ICRA]A1; long-term reaffirmed, short-term downgraded from [ICRA]A1+
Unallocated	-	13.34	[ICRA]A+ (Stable)/[ICRA]A1; long-term reaffirmed, short-term downgraded from [ICRA]A1+
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating reaffirmation takes into account Organic India Private Limited's (OIPL) established presence in the organic food industry. It is a key player in the domestic market, selling products through its brand, Organic India, via an established distribution network and diversified presence. The rating continues to draw comfort from the extensive experience of the promoters in the industry, with an operational track record of around three decades and strong parentage of Fabindia Limited (Fabindia). ICRA notes the favourable demand outlook for the industry, driven by increasing consumer awareness for organic products and Ayurvedic medicines due to their perceived health and wellness benefits. The ratings continue to take comfort from the marketing and strategic support from Fabindia, which holds 63.79% stake in OIPL (as of September 2021) and is expected to further increase its stake.

The ratings, however, remain constrained by OIPL's subdued performance over the last few years. While the company's revenue declined in FY2022 owing to sluggish export performance, its domestic performance remained stable. OIPL's return metrics continue to be subdued in the absence of any significant ramp of the utilisation of the capacities it enhanced during pre-Covid times. In FY2023, the revenue performance is expected to be supported by ramp up of the staple food segment. ICRA notes that the company improved its operating margins through cost rationalisation measures and reduction in promotional expenses in FY2022. Its dependence on debt is modest, however, with modest profitability and debt coverage indicators. Although the parent's (Fabindia) performance was substantially impacted in the pandemic, a sustained revival is expected, going forward, supported by its strong market and brand positions. OIPL's revenues remain concentrated towards tea and it is 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. The revision in the short-term rating follows the high working intensive nature of its operations, which have exerted pressure on the company's liquidity profile amid a subdued performance.

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

Key rating drivers and their description

Credit strengths

Strong brand positioning of Fabindia and its focus on organic food segment – Fabindia holds a 63.8% stake in OIPL and has a strong representation on the company's board as OIPL's parent. In line with past trends, it is expected to further increase its stake in OIPL. Fabindia has a strong brand positioning in the ethnic/ handicraft retail segment and has been making inroads into home, personal care, organic food, wellness and jewellery segments. Fabindia's diversified presence across India is expected to provide OIPL a strong platform to grow further as Fabindia has also increased its focus on the organic food segment. Moreover, Fabindia is expected to provide financial support to OIPL, in case of any need. Although the parent's (Fabindia) performance was substantially impacted in the pandemic, a sustained revival is expected, going forward, supported by its strong market and brand positions.

Extensive experience of promoters in organic food products industry – OIPL commenced business in 1997 from Lucknow as an organic health and wellness products manufacturing company. The promoters have extensive experience, having started the business in the 1990s.

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 *tulsi* teas/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 more than 40 countries, on its own as well as through its subsidiaries. In addition, OIPL has established distributor channels and has been generating ~70% of its total revenue from the dealer and distributor channels. The balance comes from its exclusive stores, modern trade (supermarkets), wellness stores, Fabindia stores, e-commerce and tele-marketing.

Favourable demand outlook for organic food industry – The market for organic food has been exhibiting strong growth globally. A major factor driving the demand for organic food is the rising levels of health and quality awareness. Moreover, driven by factors such as strong economic growth, urbanisation, and rising income levels, the consumer expenditure on health and wellness products is expected to grow in the long-term.

Credit challenges

Lower-than-expected revenue in FY2022 led by weaker exports – OIPL's FY2022 revenues were marginally lower than FY2021 due to lower export revenues. While overall demand revival was slower than expected, lack of approved labs to test Ethylene Oxide (ETO) and provide health certificate in India pursuant to the revised norms as prescribed by the European Union (EU) mainly affected the export performance. Disruption of operations in a step-down subsidiary, The Clean Prog, USA, on account of change in their product profile also led to lower revenues. The company is driving ~38% from its tea segment, ~29% from Ayurvedic products, ~24% from staple foods and the balance from personal care, psyllium and dehydrated fruits in FY2022. The company will be launching a staple food product range in the near-term to support its revenue growth.

Moderate liquidity position given high working capital requirements – OIPL's working capital intensity has remained high led by high stock and debtor levels (it had undertaken one-time debtor and inventory write-offs in FY2021). Thus, OIPL's working capital limits remain highly utilised. Moreover, its liquidity profile is characterised by the modest free cash levels in standalone and foreign operations. The performance of subsidiaries remained weak in FY2022, which also impacted OIPL's liquidity profile with free cash levels having declined over the last few years.

Modest profitability and debt coverage – OIPL had incurred high capital expenditure of over Rs. 100 crore in establishing a new manufacturing unit over FY2018 to FY2020. In the absence of any significant ramp up of utilisation of the enhanced capacities, return metrics continue to remain weak (ROCE of 4.8% and 3.4% in FY2021 and FY2022, respectively) and are expected to improve as volumes increase. OIPL's dependence on debt is limited as reflected by gearing of 0.5 time as on March 31, 2022. However, in the absence of substantial improvement in margins and cash accruals, coverage metrics for FY2022 stood modest as reflected by Net Debt/OPBDIT of 3.1 times and DSCR of 1.3 times. The repayment of scheduled debt and no major debt addition plans are expected to lead an improvement in debt coverage in addition to revenue performance revival.

Intensely competitive organic tea segment – About 40% of OIPL's revenues are derived from the organic tea/ infusion segment. However, it plans to expand its product portfolio to include stable foods, healthy snacks, personal care products and other organic food products in the near term for product diversification. In addition, the company is involved in various product innovations in the Ayurvedic medicine segment, which is expected to reduce its dependence on the tea/ infusion segment. The organic food industry is intensely competitive with numerous small and a few reputed players. While OIPL's established brand lends it an advantage, it has to incur high selling and promotional expenses to drive acceptance of organic products and tackle competition.

Liquidity position: Adequate

OIPL's liquidity position is **adequate** due to sufficient cushion in working capital limits and available moderate cash and liquid investment to meet its additional working capital requirement and term loan repayment liability in addition to the positive operational cash flows. As on May 31, 2022, the company had ~Rs. 7 crore of free cash and liquid investment and a buffer of Rs. 21 crore (average ~Rs. 16 crore in last six months) as cash credit limit with adequate drawing power. Against this, it has a repayment obligation of Rs. 11.66 crore in FY2023. ICRA notes that OIPL's free cash levels have declined over the past few years amid modest profit margins and high working capital intensity. Nevertheless, its strong parentage and availability of timely financial support lend comfort. The company also has plans for Rs. 25 crore capex in FY2023 and Q1 FY2024, which will be funded by a mix of bank loans and internal accruals.

Rating sensitivities

Positive factors – 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. Additionally, Net debt/OPBIDTA less than 1.5 times, on a consistent basis, or material improvement in the parent company's credit profile will also be a positive trigger.

Negative factors – ICRA could downgrade the ratings in case there is further deterioration in OIPL's financial risk profile due to weak profitability. Moreover, Net debt/OPBIDTA of more than 2.5 times, on a sustained basis, or any material decline in the parent company's credit risk profile will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Fast-Moving Consumer Goods (FMCG) Industry Rating Approach – Implicit Support from Parent or Group
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 them; 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.

About the company

OIPL, established in 1997, is an organic health and wellness product manufacturing company with a manufacturing facility 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 and OIPL share a common management. Fabindia, the parent company of OIPL, has over 300 stores across India and abroad, and is managed by Mr. William Bissell, son of the founder promoter, Mr. John Bissell. Fabindia held 63.79% stake in OIPL as on March 31, 2022.

Fabindia is also planning an initial public offer (IPO), whose draft red herring prospectus (DHRP) was approved by SEBI in May 2022.

Key financial indicators (audited/provisional)

OIPL consolidated	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	344.9	394.8	385.2
PAT (Rs. crore)	6.5	5.1	6.9
OPBDIT/OI (%)	8.9%	7.5%	9.2%
PAT/OI (%)	1.9%	1.3%	1.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.1x	0.8x	0.8x
Total Debt/OPBDIT (times)	5.4x	4.7x	3.3x
Net Debt/OPBDIT (times)	4.4x	4.1x	3.1x
Interest Coverage (times)	2.8x	3.1x	4.1x

*Source: Company, *provisional financial statement submitted by management*

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019
					July 21, 2022	Oct 7, 2021	Jul 10, 2020	Feb 8, 2019
1	Term Loans	Long Term	11.66	**11.66**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Cash Credit/ WCDL	Long/Short Term	75.00	-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
3	Bank Guarantee	Short Term	-	-	-	-	-	[ICRA]A1+
4	Unallocated	Long/Short Term	13.34	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

*Source: Company, *outstanding as on March 31, 2022*

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long/Short Term – Cash Credit/WCDL	Simple
Long Term – Term Loans	Simple
Long/Short Term – Unallocated	Not applicable

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, is available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Sep 2017	NA	Oct 2022	11.66	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL	NA	NA	NA	75.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Unallocated	NA	NA	NA	13.34	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Organic India Private Limited	NA	Parent company
Organic India USA LLC	100%	Full consolidation
The Clean Program Corp	50%	Full consolidation

Source: Company

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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