

April 06, 2021

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 – Fund-based/ Cash Credit	65.00	55.00	[ICRA]AA- (Stable); Reaffirmed
Short-Term – Non-fund Based	10.25	0.00	-
Long-Term/ Short-Term – Unallocated	0.00	20.25	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Total	75.25	75.25	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the strong financial profile of Fine Organic Industries Limited ('FOIL') characterised by healthy profitability, cash accruals and return indicators, comfortable capital structure and strong liquidity position and the positive demand outlook for the company's products in the domestic as well as export markets. The ratings also take into account the healthy scale of operations and cash accruals in FY2020 and 9M FY2021, which are expected to increase further driven by the ramp up in the capacity utilisation of the recently set up Ambernath (Maharashtra) and Patalganga (Maharashtra) plants. The ratings continue to positively factor in the extensive track record of the company's promoters in developing and manufacturing 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, who include reputed players in the petrochemicals and food industries. 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 (R&D) facility.

The ratings are, however, constrained by the exposure of the company's profitability to adverse movements in raw material prices since some portion of sales are through client contracts that are typically 'fixed-price' in nature. However, the same is mitigated by entering into long-term contracts with suppliers when entering into such contracts with customers. The ratings also take into account the vulnerability of profitability to adverse fluctuations in foreign currency rates on the unhedged forex position. ICRA notes the company's plan for capex on its books as well as at joint venture (JV) level, which would expose it to project execution risks. Though the debt levels went up in FY2020 due to the ECB availed by the company for its expansion/capex, net debt remained negative as on H1 FY2021 owing to healthy cash accruals. Additionally, ICRA notes that the company is looking for an inorganic expansion and evaluating projects for downstream and upstream integration. As these plans are as yet in their preliminary stages, ICRA has not factored in the same while evaluating the credit risk profile of the company. Nevertheless, any sizeable debt-funded capex or acquisition would remain an event-based sensitivity.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that FOIL will continue to benefit from its extensive track record of operations, positive demand outlook for its products, healthy financial risk profile and commitment to conservative financial policies.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in manufacturing additives – FOIL, a part 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 400 different products and has various global certifications in place for them.

Strong in-house R&D facilities for process improvement and product innovations - FOIL has an in-house R&D centre with strong capabilities. The company's in-house product innovations and engineering improvements to build advanced machinery helps it gain an edge over other local players.

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

Long-term stable relationship with suppliers – About 70%-75% of the company's raw material is procured from the domestic market. The company enjoys healthy relationships with its suppliers with provisions to review the processing charges as and when warranted by the market conditions.

Strong financial profile– The company's operating income has grown at a CAGR of 11.0% between FY2015 and FY2020; although remaining moderate in 9M FY2021 as the operations could not ramp up at its Ambarnath plant due to the pandemic induced lockdown. Nevertheless, with the commissioning of the new Patalganga unit and easing of the lockdown, the company is expected to report significant growth in the coming fiscals. FOIL has maintained healthy operating margins (18–20%) despite volatility in raw material prices, reflecting its efficient procurement practices. The company's gearing and debt/OPBITDA continued to remain low at ~0.2 time and ~0.5 time, respectively, as on September 30, 2020. The company's debt coverage metrics are expected to remain healthy due to healthy cash accruals.

Credit challenges

Vulnerability to adverse movements in raw material prices – The company's key raw materials are vegetable oil and palm oil, whose prices have been volatile. The price for the company's products is based on vegetable oil prices and exchange rates at the time of contract initiation. On the other hand, FOIL enters into long-term procurement contracts with suppliers to fix the raw material price, which mitigates the raw material price fluctuation risk significantly.

Profitability remains exposed to adverse fluctuations in forex rates - Given that ~55-60% of the company's sales are derived from exports, its profitability remains vulnerable to adverse movements in foreign currency, but the risk is mitigated largely by the natural hedge from imports, debt repayments in foreign currency and through forex hedging of imports and exports.

Capex plans to enhance capacity – The company has equity commitments over the next two years for a planned JV in Germany. The company is thus exposed to project execution risks. Its ability to complete the project without significant time or cost overruns and ramp up operations of its new facilities, post-commissioning, would remain important.

Liquidity position: Strong

FOIL has been generating considerable amount of positive cash flow from operations. The fund-based limits of Rs. 55 crore is largely unused because of healthy cash accruals. The ECB of \$18.75 million was fully disbursed by June 2019 for which the repayment started from December 2019 with a quarterly repayment of \$1.1 million. As on September 30, 2020, the outstanding amount of ECB stood at \$14.34 million, which would be fully repaid by December 2023. With healthy cash and liquid investments of Rs. 211 crore as on September 30, 2020 and significant amount of undrawn working capital limits, liquidity is expected to remain strong. Additionally, capex commitments are expected to remain moderate in relation to the cash accruals of the company.

Rating sensitivities

Positive factors – Any rating upgrade is unlikely in the medium term. However, ICRA could upgrade FOIL’s rating if the company demonstrates substantial increase in its scale of operations while maintaining healthy operating margins, working capital intensity and capital structure.

Negative factors – Negative pressure on the rating could emerge if the company undertakes sizeable debt-funded capital expenditure or acquisition, which impacts its capital structure and/or liquidity resulting in Debt/OPBITDA of more than 1.5 times. Additionally, any significant deterioration in the company’s operating margin and working capital cycle impacting its cash flows and liquidity may also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
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, 2020, the company had two subsidiaries and two JVs, which are enlisted in Annexure-2.

About the company

Fine Organic Industries Limited (FOIL) is a part 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 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, textile auxiliaries and lubes. Incorporated in 2005, FOIL commenced operations from 2006 by setting up a manufacturing facility in Ambarnath. Currently, FOIL has manufacturing facilities at multiple locations in Maharashtra— Ambarnath, Badlapur, Dombivali and Patalganga. Previously a private limited company, FOIL was registered as a public limited company in November 2017 and was subsequently publicly listed in July 2018.

In H1 FY2021, as per unaudited and provisional results, the company reported profit after tax (PAT) of Rs. 60.89 crore on an operating income (OI) of Rs. 511.00 crore; while it reported PAT of Rs. 169.86 crore on an OI of Rs. 1,038.08 crore in FY2020.

Key financial indicators

ICTIPL Consolidated	FY2019 Audited	FY2020 Audited	H1FY2021 Unaudited
Operating Income (Rs. crore)	1063.22	1038.08	511.00
PAT (Rs. crore)	136.25	169.86	60.89
OPBDIT/OI (%)	21.93%	23.16%	20.29%
RoCE (%)	53.61%	37.76%	24.15%
Total Outside Liabilities/Tangible Net Worth (times)	0.40	0.37	0.34
Total Debt/OPBDIT (times)	0.55	0.52	0.51
Interest Coverage (times)	126.76	49.88	31.15
DSCR (times)	88.03	10.16	4.34

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				06-Apr-2021	17-Jan-2020	09-Jan-2019	21-Dec-2017	
1	Cash Credit	Long-Term	55.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Non-Fund Based Limits	Short-Term	0.00	-	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1
3	Unallocated	Long Term/ Short-Term	20.25	-	[ICRA]AA- (Stable)/ [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	Cash Credit	NA	NA	NA	55.00	[ICRA]AA- (Stable)
NA	Unallocated	NA	NA	NA	20.25	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	FOIL Ownership	Consolidation Approach
Fine Organics USA Inc	100%	Line by line consolidation
Fine Organics Europe BVBA	99.50%	Line by line consolidation
Fine Zeelandia Private Limited	50%	Equity Method
FineADD Ingredients GmbH	50%	Equity Method

Source: Company

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