April 18, 2022

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	55.00	15.00	[ICRA]AA-(Stable); reaffirmed
Long Term/Short Term – Fund Based /Non-Fund Based Limits	-	56.00	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Long Term/Short Term – Unallocated	20.25	4.25	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Total	**75.25**	**75.25**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the strong financial profile of Fine Organic Industries Limited (FOIL), characterised by healthy profitability, cash accruals and return indicators, a comfortable capital structure and a strong liquidity position. A positive demand outlook for the company's products in the domestic and export markets also support the ratings. The ratings take into account the revenue growth in FY2021 and 9M FY2022, which is expected to increase further with the ramp-up in capacity utilisation of the Ambernath facility (Maharashtra) and the recently set up Patalganga plant (Maharashtra). 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 the company has with its domestic and overseas customers, which include reputed players in the petrochemical 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 susceptibility of the company's profitability to the adverse movements in raw material prices, as witnessed in some moderation in the profit margins in recent years. However, the impact is partly mitigated by the changes in contract duration with customers during periods of sharp volatility. The ratings also factor in the vulnerability of profitability to the adverse fluctuations in foreign currency rates on the unhedged forex position. ICRA notes the capex plans both at the company and joint venture (JV) level would expose FOIL to project execution risks. Additionally, ICRA notes that the company is looking at inorganic as well as organic expansions. As these plans are in their preliminary stages, ICRA has not factored in the same while evaluating the company's credit risk profile. 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 the favorable demand for its products and the ramp-up in the utilisation of new capacities, supported by its extensive track record of operations.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in manufacturing additives – FOIL, a part of the Fine Organics Group founded in 1970, manufactures 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 460 different products and has various global certifications 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, product applications and engineering improvements helps it cater to the market's needs and gain an edge over other global players.

Reputed customer profile with low customer concentration risk - The company has a well-diversified and reputed customer base in both the petrochemical and food 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 relationships with suppliers – About 65-75% of the company's raw material is procured from the domestic market. The company has healthy relationships with its suppliers which ensures uninterrupted supply of raw materials and mitigates the impact of supply risks.

Strong financial profile– FOIL, on a consolidated basis, reported an operating income of Rs. 1,133.4 crore in FY2021, a growth of 9.2% over the FY2020 levels, driven by higher capacity utilisation across all its plants, including its newly commissioned facility at Ambernath. In 9M FY2022, on a consolidated basis, the company's operating income grew to Rs. 1,259.4 crore, driven by better realisation and volume growth. On profitability, the operating margin has witnessed moderation due to the increase in raw material prices, but still remained healthy (15–17%) reflecting its efficient procurement practices. The company's gearing and debt/OPBITDA continued to be low at ~0.1 time and ~0.3 time respectively, as on September 30, 2021. The company's debt coverage metrics are expected to remain healthy due to the healthy cash accruals.

Credit challenges

Vulnerability to raw material price fluctuation – The company's key raw materials are vegetable oils and their derivatives, whose prices have been volatile. The prices of the company's products are based on vegetable oil prices. FOIL enters into short-term (3-6 months) contracts with customers at spot rates, which mitigates the raw material price fluctuation risk significantly.

Profitability exposed to adverse fluctuation in forex rates – The company's profitability is vulnerable to the adverse movements in foreign currency as ~55-60% of its sales come from exports, while it imports ~30-35% of its total raw material requirement. However, the risk is mitigated largely by the natural hedge from imports, debt repayments in foreign currency and forex hedging of imports and exports.

Liquidity position: Strong

FOIL's liquidity position, on a consolidated basis, remains strong with healthy annual fund flow from operations, surplus free cash and bank balances and unutilised working capital limits. At a consolidated level, the annual fund flow from operations was Rs. 149.4 crore in FY2021 and Rs 146.8 crore 9M FY2022. FOIL's unencumbered cash and bank balances were ~Rs. 179.8 crore as on September 30, 2021. The fund-based limits of Rs. 71 crore is unutilised because of healthy cash accruals. The ECB of $18.75 million was fully disbursed by June 2019 for which repayment started from December 2019 with a quarterly repayment of $1.1 million. As on September 30, 2021, the outstanding amount of ECB stood at $9.93 million (~Rs. 73.4 crore), which would be fully repaid by December 2023. Additionally, the capex commitments are expected to remain moderate (~Rs. 25-30 crore in FY2023) in relation to the cash accruals of the company.

Rating sensitivities

Positive factors – ICRA could upgrade FOIL's ratings if the company demonstrates a substantial increase in its scale of operations while maintaining healthy operating margins, working capital intensity and capital structure on a sustained basis.

Negative factors – Negative pressure on the ratings could emerge if the company undertakes sizeable debt-funded capital expenditure or acquisition, which will impact its capital structure and liquidity and increase the net debt/OPBDITA to more than 1.2 times on sustained basis. 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](#) [Rating Methodology for Entities in the 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, 2021, 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 Organics 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 manufactures oleochemical additives for various end-user industries such as food, plastic, rubber, paint, ink, cosmetics, coatings, textile auxiliaries and lubes. FOIL, incorporated in May 2002, commenced operations from 2006 by setting up a manufacturing facility at Ambernath in Maharashtra. At present, it has manufacturing facilities at Ambernath, Badlapur, Dombivali and Patalganga in Maharashtra. Previously a private limited company, FOIL was registered as a public limited company in November 2017 and was subsequently listed in July 2018.

In 9M FY2022, as per unaudited and provisional results, the company reported a profit after tax (PAT) of Rs. 138.6 crore on an operating income (OI) of Rs. 1259.4 crore, while it reported PAT of Rs. 121.6 crore on an OI of Rs. 1133.4 crore in FY2021.

Key financial indicators

FOIL Consolidated	FY2020 Audited	FY2021 Audited	9MFY2022 Unaudited
Operating Income (Rs. crore)	1038.08	1133.36	1259.39
PAT (Rs. crore)	169.86	121.65	138.56
OPBDIT/OI (%)	23.16%	17.59%	16.26%
RoCE (%)	37.76%	22.95%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.37	0.28	-
Total Debt/OPBDIT (times)	0.52	0.45	-
Interest Coverage (times)	49.88	32.53	54.62
DSCR (times)	10.16	4.38	-

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					18-Apr-2022	06-Apr-2021		17-Jan-2020	09-Jan-2019
1	Cash Credit	Long-Term	15.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]A+(Positive)
2	Fund Based /Non-Fund Based Limits	Long Term/ Short-Term	56.00	-	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	[ICRA]A1+	[ICRA]A1
3	Unallocated	Long Term/ Short-Term	4.25	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term/Short Term – Fund Based /Non-Fund Based Limits	Simple
Long Term/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 analyzing 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-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	15.00	[ICRA]AA- (Stable)
NA	Fund Based /Non-Fund Based Limits	NA	NA	NA	56.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	4.25	[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 BV	99.5%	Line by line consolidation
Fine Zeelandia Private Limited	50%	Equity Method
FineADD Ingredients GmbH	50%	Equity Method

Source: *Company (as on 31.12.2021)*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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