

Fine Organic Industries Limited

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits – Cash Credit	65.00	65.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Non-fund based limits	8.25	10.25	[ICRA]A1; Reaffirmed
Term Loans	40.57	0.00	--
Total	113.82	75.25	

Rating action

ICRA has upgraded the long-term rating from [ICRA]A (pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus) and reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) outstanding on the bank limits of Fine Organic Industries Limited (FOIL) aggregating to Rs. 75.25 crore¹ (reduced from Rs. 113.82 crore)². The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade in the long-term rating favourably factors in the healthy revenue growth reported by the company driven by the successful commissioning of its new manufacturing lines coupled with healthy demand indicators for its products in the domestic and export markets. The company's financial profile remains strong characterized by healthy return indicators, comfortable capital structure and strong liquidity position. 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, who 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, risks related to large-size capex planned by the company in the medium term remains a concern from a credit perspective, however, the company's track record in execution of such projects in the past provide comfort. ICRA notes that the company's borrowing levels are likely to increase as the planned expansions gain momentum, though the gearing and debt coverage metrics are still expected to remain comfortable supported by the healthy cash accruals being generated from the business.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes FOIL will continue to benefit from its leading presence in the domestic and global market for oleochemical derivatives. The outlook may be revised to 'Positive' if there is a healthy ramp up of the company's upcoming manufacturing units, post-commissioning, which could lead to increase in the overall scale of the company's operations and cash accruals. The outlook may be revised to 'Negative' if the debt-funded capex or the investments in the ongoing and planned joint venture projects are higher than expected thereby weakening the company's credit metrics.

Key rating drivers

Credit strengths

Long track record of promoters in manufacturing of additives and amides – 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 has been 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. 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 80% of the company's raw material (fatty acids processed from vegetable oil) procurement is from the domestic market. The company has a long-standing relationship 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 compounded annual growth rate of 12% between FY2013 and FY2017 with a 22% y-o-y growth seen in FY2017 driven by healthy demand indicators for its products and capacity expansions undertaken by the company. FOIL has maintained healthy operating margins (18%~20%) despite volatility in raw material prices reflecting its efficient procurement practices. The company's gearing has reduced consistently over the last few years and a large part of the company's current debt includes unsecured promoter loans. With increase in internal accruals and decline in borrowing levels, the company's debt coverage metrics have strengthened.

Credit weaknesses

Vulnerability to adverse movements in raw material prices – The company's key raw materials are palm oil and palm-oil based derivatives, the prices of which have been volatile. The price for the company's contracts with its customers is quoted according to the vegetable oil prices and exchange rates at the time. The company's profitability is exposed to adverse movements in raw material prices during the time gap between finalising the contracts with its customers and suppliers.

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 further capacity expansion at its Ambernath facility. In addition, the company has equity commitments over the next 12-18 months for planned joint ventures with certain foreign companies. 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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Chemical Industry](#)

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 skilled chemical technocrat. The group is engaged in the manufacturing of oleochemical additives³ 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). Currently, FOIL has manufacturing facilities at two locations in Maharashtra - Ambernath and Badlapur. In FY2017, FOIL's subsidiaries, Fine Research and Development Centre Private Limited and Fine Speciality Surfactants Private Limited (a manufacturer of polymer additives in Dombivili, Maharashtra), were amalgamated with the company. Previously, a private limited company, FOIL was registered as a public limited company in November 2017.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	642.8	786.3
PAT (Rs. crore)	75.0	79.5
OPBDIT/ OI (%)	22.2%	18.7%
RoCE (%)	42.9%	40.2%
Total Debt/ TNW (times)	0.4	0.1
Total Debt/ OPBDIT (times)	0.7	0.3
Interest coverage (times)	18.0	32.6
NWC/ OI (%)	23%	25%

³ oleochemical is a chemical compound derived industrially from animal or vegetable oils or fats

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating December 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Fund Based Limits – Cash Credit	Long Term	65.00		[ICRA]A+ (Stable)	July 2016 [ICRA]A Stable	-	June 2014 [ICRA]A-Stable
2 Non-Fund Based Limits – LC, BG	Short Term	10.25		[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+ (Stable)
NA	Non-fund based limits	-	-	-	10.25	[ICRA]A1

Source: Fine Organic Industries Ltd.

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