Organic India Private Limited

February 08, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	70.00	[ICRA]A+ (Stable); assigned
Fund Based - Working Capital Facilities	25.00	[ICRA]A+ (Stable)/ [ICRA]A1+: assigned
Non-fund Based - Bank Guarantee	5.00	[ICRA]A1+: assigned
Total	**100.00**	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings take 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 rating also draws comfort from the extensive experience of the promoters in the industry with operational track record of around three decades. ICRA also notes that the demand outlook for the industry remains favourable, driven by the increasing awareness among the people to use organic products due to its inherent benefits. The aggressive marketing by OIPL and improving disposable income has also been playing a major role in the company's growth which is reflected in growth in the operating income (OI) to Rs. 270 crore in FY2018 from Rs. 127 crore in FY2014. The ratings are also supported by the healthy financial profile of the company characterised by low gearing levels of 0.59 times and strong debt protection metrics with interest coverage of 20.56 times as on as on March 31, 2018. The successful commissioning of the new manufacturing facility in November 2018 would help to improve its processing capacity and geographic diversity. ICRA also takes comfort from the marketing and strategic support from Fabindia Overseas Private Limited (Fabindia), which holds more than 53% stake in OIPL.

The rating, however, is constrained by the fact that OIPL has incurred a significant capital expenditure recently to construct the new manufacturing facility, which might impact the return indicators in the near to medium term in case the envisaged operating parameters are not achieved. ICRA also takes note of the declining operating profit margins over the past few years to 15.76% in FY2018 from 21.15% in FY2014 owing to the rising raw material, employee and marketing expenses. The ratings also take into account the subdued performance of Organic India USA LLC (OIUL), a 100% subsidiary of OIPL. However, ICRA takes note of the company's efforts to expand and geographically diversify its markets going forward, by acquiring a 50% stake in The Clean, USA by OIUL. OIPL has also entered an agreement with Nutriwel Health India Pvt. Ltd. (NHIPL) to market its products in the domestic market. These initiatives are expected to create brand awareness and improve growth prospects in the medium term.

Going forward, the company's ability to improve its scale, sustain its profit margins and maintain a prudent capital structure and optimal working capital intensity will be the key rating sensitivity.

Outlook: Stable

ICRA believes that OIPL continues to benefit from its dominant position and established track record in the organic food products industry. This apart, increasing demand of organic product would have a key role in the company's growth in the future. The outlook may be revised to Positive if substantial growth in revenues and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if the cash accrual is lower than expected or if any major decline in sales turnover or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in 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 positioning 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 the total revenue from the dealer and distributor channels. The balance comes from its exclusive store, modern trade (super markets), wellness stores, e-commerce and tele calling.

Strong brand positing of Fabindia and common management – Fabindia holds more than 53% stake in OIPL and has a strong presence on the board of the latter. It 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 healthy profitability – OIPL's revenues has been increasing due to aggressive marketing, and continuous product innovations in the past. The growth has also been supported by the consumers' rising disposable income. The sales turnover is expected to increase further in the current fiscal as the newly constructed manufacturing facility with additional production capacity commenced commercial production in November 2018.

Healthy debt and interest coverage indicators – OIPL's gearing is low 0.59 times in FY2018 due to strong net worth. The interest coverage and debt service coverage ratio (DSCR) stood at 20.56 times and 3.87 times in FY2018.

Credit challenges

Declining operating profit margins – OIPL's operating margins have been declining since FY2014. The company's operating margin stood at 21.15% in FY2015, which declined to 15.76% in FY2018 owing to the rising raw material cost (also including packing material), employee expenses and marketing expenses. However, management has cited that the increase in the employee and marketing expenses is in line with the business strategy to augment sales for utilisation of the additional capacity generated after setting up of the new manufacturing unit.

Sizeable capital expenditure in FY2018 and FY2019 might impact near-term returns – OIPL has incurred high capital expenditure in FY2018 and FY2019, which might impact its profitability and return indicators in the near to medium term. The company has incurred ~Rs. 100 crore in establishing a new manufacturing unit with additional production capacity. If the envisaged operating parameters are not achieved by the company, the profit margins and return indicators might decline in FY2019 and FY2020.

Revenue concentration in intensely competitive organic tea segment – OIPL has been generating around 50% revenues from the intensely competitive organic tea segment. Although, OIPL holds strong position in the segment with a variety of *tulsi* teas. This apart, the company is involved to various product innovation in the ayurvedic medicine segment, which is expected to reduce the dependency on the tea segment.

Liquidity position

OIPL's liquidity has been comfortable with cash and liquid investments of Rs. 19.20 crore as on March 31, 2018. Its average working capital utilisation remains comfortable at 52% of sanctioned limits during the last 12 months. OIPL has repayment obligations of Rs. 9.32 crore FY2019, Rs. 18.64 crore from FY2020 to FY2022 and Rs. 10.46 crore in FY2023 of the term loans availed to construct a new manufacturing unit.

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; as on March 31, 2018, OIPL had 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. The 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, forests and farmlands. 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 State Department of Agriculture (USDA) Organic and Orthodox Union (OU) Kosher certification. The company has a base of more than 2,000 farmers having organic cultivation 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 increased the stake to more than 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 hand woven and hand printed 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 21.91%, JLW Partners Holding Inc a 22.65%, PI Opportunities – 1 (Premji Invest) a 25.89% and Mr. Madhukar Khera a 6.20% stake in Fabindia.

Key financial indicators (Audited)

	FY2017*	FY2018*
Operating Income (Rs. crore)	253.11	270.98
PAT (Rs. crore)	25.96	28.54
OPBDIT/ OI (%)	16.25%	15.76%
RoCE (%)	25.57%	20.31%
Total Debt/ TNW (times)	0.22	0.59
Total Debt/ OPBDITA (times)	0.87	2.60
Interest Coverage (times)	28.16	20.56

*consolidated financial of Organic India Private Limited and its subsidiaries

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2017
1	Term Loan	Long Term	70.00	**70.00**	**[ICRA]A+ (Stable)**	-	-	-
2	Cash Credit/WCDL	Long/ Short Term	25.00	-	**[ICRA]A+ (Stable)/A1+**	-	-	-
3	Bank Guarantee	Short Term	5.00	-	**[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	70.00	[ICRA]A+ (Stable)
NA	Cash Credit/ WCDL	-	-	-	25.00	[ICRA]A+ (Stable)/A1+
NA	Bank Guarantee	-	-	-	5.00	[ICRA]A1+

Source: OIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Organic India USA LLC	100%	Full consolidation
Composite Interceptive Medscience Laboratories Private Limited	80%	Full consolidation

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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.

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