

January 17, 2020

Fine Organic Industries Limited: Long term rating upgraded to [ICRA]AA-(Stable); Short term rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The upgrade in long-term rating of Fine Organic Industries Limited (FOIL) favourably factors in the healthy improvement in scale of operations and cash accruals in FY2019 and H1 FY2020 which are expected to increase further driven by the ramp up in the capacity utilisation of the newly commissioned capacity at Ambarnath (Mumbai) and the positive demand outlook for the company's products in the domestic as well as export markets. The company's financial profile remains strong characterized by healthy profitability, cash accruals and return indicators, comfortable capital structure and strong liquidity position. The ratings continue to positively factor in 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 some portion of sales are through contracts and these contracts with its customers are typically 'fixed-price' in nature, which however gets mitigated by entering into long term contract with suppliers at the time of entering into contract 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 level. Though the debt levels have gone up due to the ECB availed by the company for its recent expansion/capex, net debt remain negative as on H1 FY 2020 owing to healthy cash accruals.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that FOIL will continue to benefit from its long 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

Long track record of promoters in manufacturing of 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 its products.

Strong in-house research and development facilities for process improvement and product innovations - Company has strong in-house research and development centre. 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 both petrochemical and foods segment. 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 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 CAGR of 13.8% between FY2014 to FY2019 with 24.9% YoY growth seen in FY2019 which, however, remain moderate in H1 FY2020 as the plant was almost fully utilised. With commissioning of new Ambernath unit, the company is expected to report significant growth in 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 continues to remain low at ~0.3 times and ~0.6 times as of FY2019 end. Total debt stood at ~Rs. 126 crore with gearing of 0.2 times as on H1 FY 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, the prices of which 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 contract with suppliers to fix the raw material price which mitigates the raw material price fluctuation risk significantly.

Company's profitability remains exposed to adverse fluctuations in foreign currency - Given that ~60% of the company's sales are derived from exports, the company's profitability remains vulnerable to adverse movements in foreign currency but the risk is mitigated largely on account of 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 commissioned the additional capacity at Ambernath and is in the process of expansion in its Patalganga facility. In addition, the company has equity commitments over the next

12-18 months for a planned joint venture in Germany. The company is thus exposed to project execution risks. The ability of the company to complete its projects without significant time or cost over runs 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 flows from operations. The fund based limits of Rs. 65 crore is largely unused because of healthy cash accrual of the company. Company has availed ECB of US\$ 18.75 million as on H1 FY 2020 for which the repayment started from December 2019 with a quarterly repayment of US\$ 1.1 million. With healthy cash accruals, cash and liquid investments of Rs. 165 crore as on H1 FY 2020 and significant amount of undrawn working capital limits, liquidity is expected to remain **strong**.

Rating sensitivities

Positive triggers – Ratings upgrade is unlikely in 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 triggers – 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, 2019, the Company had 2 subsidiaries and 2 JV, that 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, lubes etc. Incorporated in 2005, FOIL commenced operations in 2006 by setting up a manufacturing facility in Ambarnath (near Mumbai). In 2011, FOIL’s group company viz. Oleofine Organics (India) Private Limited was merged with FOIL owing to significant operational, managerial and financial synergies between the two entities. Currently, FOIL has manufacturing facilities at multiple locations in Maharashtra – Ambarnath, Badlapur and Dombivali, Company is coming up with a new facility in Patalganga which is still under construction. In FY2017, FOIL merged with Fine Research and Development Centre Private Limited (FRDCPL) and Fine Speciality Surfactants Private Limited (FSSPL). Previously a

private limited company, FOIL was registered as a public limited company in November 2017 and subsequently got publicly listed in July 2018.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	855.8	1063.2
PAT (Rs. crore)	95.3	136.3
OPBDIT/OI (%)	18.6%	21.9%
RoCE (%)	42.7%	53.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.3	0.6
Interest Coverage (times)	50.3	126.8
DSCR	37.3	88.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					17-Jan-2020	9-Jan 2019	21-Dec 2017	22-July 2016
1	Fund Based Limits – Cash Credit	Long Term	65.00		[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A Stable
2	Non-Fund Based Limits – LC, BG	Short Term	10.25		[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

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]AA- (Stable)
NA	Non-fund based limits	-	-	-	10.25	[ICRA]A1+

Source: VVSSPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Type of Alliance	Consolidation Approach
Fine Organics USA Inc	Subsidiary	Line by Line Consolidation
Fine Organics Europe BVBA	Subsidiary	Line by Line Consolidation
Fine Zeelandia Private Limited	50:50 Joint Venture	Equity method
FineADD Ingredients GmbH	50:50 Joint Venture	Equity method

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