Jocil Limited

August 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	81.00 (Enhanced from 40.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	29.00 (Enhanced from 18.00)	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**110.00 (₹ One Hundred Ten Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Jocil Limited considers experienced and strong promoters with long established track record of operations, support extended by way of infusion of unsecured loans, improvement in total operating income (TOI) in FY22 (refers to period between April 01 to March 31) and Q1FY23 led by increased sales realizations, healthy capital structure and comfortable coverage indicators led by low working capital utilisation, improved operating cycle, reputed client base albeit concentrated, diversified revenue streams and benefits derived from captive power plants along with stable industry growth prospects. The rating strengths are however partially offset by, decline in operational performance due to lower sales volumes in FY22, decreasing trend of profitability and profit margins, volatility in raw material prices, unable to entirely pass on the increase in prices of raw material to its customers, expected increase in working capital borrowings, exposure to government regulations, and fragmented industry with intense competition.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with sustainable PBILDT margin above 5.00%

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in capital structure with overall gearing above 0.5x
- Significant rise in working capital weakening the financial risk profile

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter group with established track record and support extended by way of infusion of funds: Jocil Limited (Jocil) has more than four decades of experience in manufacturing stearic acid flakes, fatty acids, toilet soap, soap noodles and refined glycerine. The company belongs to a strong promoter group. Jocil is a subsidiary of The Andhra Sugars Limited (TASL; holding 55.02% stake) which has established business operations based in South India. Managing Director, Mr. J. Murali Mohan has over four decades of experience in the industry and other directors of the company are also experienced and well qualified. The day-to-day operations of Jocil are supported by an experienced and professional team down the line. In Q1FY23, the promoters have infused funds to an extent of Rs.25 crore to support the working capital requirements of Jocil.

Improvement in total operating income in FY22 and Q1FY23: In FY22, total operating income (TOI) of Jocil increased by about 33% from Rs.565.40 crore in FY21 to Rs.753.78 crore at the back of continued demand in the industry for toilet soaps and fatty acids from FMCGs and improved sales realisation with increase in sales prices of products. Fatty acids and soap products constitute majority of income for Jocil and the sales realisations per MT for both the segments increased by more than 50% in FY22 over FY21.Sales realisation for Fatty Acids and Soap Products increased to Rs.97,442 per MT and Rs.90,578 per MT respectively from Rs.64,395 per MT and Rs.59,815 per MT in FY21. Further, in Q1FY23, Jocil continued to report healthy revenue of Rs.284.41 crore which is an increase of about 69% in comparison to corresponding quarter of previous year.

Healthy capital structure coupled with strong coverage indicators: The capital structure of the company remains healthy with nil long-term debt as on March 31, 2022. Further, outstanding working capital borrowings remained low at Rs.4.35 crore resulting in comfortable overall gearing ratio at 0.02x (PYE: 0.01x). Jocil prefers to utilise the internal accruals for working capital requirements resulting in low utilisation of WC limits. Other debt coverage indicators, interest coverage ratio and TDGCA of the company remained healthy at 90.25x (PY: 23.56x) and 0.33x (PYE: 0.12x) at the back of low debt outstanding.

Improved operating cycle: As on March 31, 2022, the operating cycle of the company is at 67 days when compared to 81 days as on March 31, 2021. This is on account of marginal improvement in inventory holding period and collection period where both improved to 45 days (PY: 50 days) and 38 days (PY: 53 days) respectively. The company usually makes payments within 10-15 days for its suppliers and extend a credit period of 30-45 days for its customers. As of March 31, 2022, total receivables stood at Rs.74.02 crore out of which receivables less than 6 months constitute 90%. Given the different types and grades of

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

oleo chemicals and soap products offered, it needs to maintain a sufficient stock in order to meet the customer's demand. Also, in view of increase of fluctuating raw material prices, the inventory levels are normally high.

Reputed customer base albeit concentrated: Jocil's customers include reputed client base with its sales being to major players in India like Hindustan Unilever Limited (HUL), Reckitt Benckiser Group (RB), ITC Limited, MRF Limited, Emami Limited, BASF India Limited, Nestle India Limited etc. The company established long standing relationship with these customers resulting in repetitive orders year on year. However, Jocil faces customer concentration risk with almost 54% of revenue derived from one customer i.e., Hindustan Unilever Limited (HUL). The risk is partially mitigated by way of repetitive orders from the customer.

Diversified revenue streams: Sales from Oleo chemicals (Fatty acids and Soap Noodles) is the major revenue contributor for Jocil. However, the company also derives sales from by products like Glycerine, Pitch, Industrial oxygen and sale of Wind power and surplus power from biomass power plant. Fatty acids are the prime raw materials for producing soap noodles. The fatty acids produced by Jocil are sold to major FMCG customers and uses it for captive consumption for its soap vertical.

Benefits derived from captive power plant: The company has a 6 MW biomass cogeneration captive power plant located within the factory premises at Dokiparru Village, Guntur to cater to its power requirements and excess power generated sold through IEX platform whenever the tariff rates have been viable. Further, Jocil has four Wind Energy Generators (WEG), aggregating to 6.30 MW, located in the state of Tamil Nadu. Jocil has an existing long-term power purchase agreement (valid through 2030) with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) at an average tariff of Rs.2.90/unit.

Industry outlook: The Company is engaged in the manufacture of Stearic Acid, Fatty Acids, Refined Glycerine, Soap Noodles, Toilet Soap, Industrial Oxygen and in the generation of Power from biomass and wind. Non-edible vegetable oils and fatty acid distillates, both indigenous and imported, are used as raw materials for the manufacture of the finished products. Raw material cost is a major component in the cost of production of fatty acids and soap products. International market prices of edible and non-edible oils highly influence the raw material prices in the domestic market. Oleo chemicals are industrially produced chemicals derived from animal fats or vegetable oils. Since oleo chemicals are less toxic as compared to conventional petrochemical products, various end use industries such as those engaged in manufacturing of personal care products, Cosmetics, Polymer and plastics, detergents, soaps and agrochemicals, are substituting their requirement for petrochemicals with oleo chemicals. Global market for Oleo chemicals is expected to grow at CAGR 7% for forecast period 2022-2030 attributed to high demand for hypoallergenic and chemical free ingredients from the cosmetics and personal care Industry.

Key rating weaknesses

Decline in operational performance due to lower sales volumes in FY22: After a healthy demand from toilet soap industry and fatty acids (primary raw material for manufacturing of soap noodles) due to impact of COVID-19 resulting in increase in sales volumes in FY21, Jocil witnessed decline in sales volumes in FY22 with decrease in impact of COVID-19. Capacity utilisation of Fatty Acids and Soap products decreased to 90.59% and 57.63% respectively in FY22 when compared to 94.12% and 72.20% respectively in FY21. However, as mentioned above, despite decline in sales volumes, with improved sales realisation, Jocil reported growth in revenue in FY22 and Q1FY23.

Decreasing trend in operating profit and profit margins: In last three years ending FY22, despite increase in TOI, operating profit of Jocil has been on a declining trend led by increase in raw material prices. In FY22, RM prices as a percentage of total income increased to ~83% when compared to ~77% in FY21. This had resulted in impact on operating profit. PBILDT declined by about 25% to Rs.15.63 crore in FY22 (PY: Rs.20.94 crore). Profit margins of Jocil also have been on a declining trend with operating and net margins at 2.07% and 0.95% in FY22 when compared to 3.70% and 2.41% in FY21. Jocil is unable to entirely pass on the increase in RM prices to its customers resulting in impact on profit margins.

Exposure to various government regulations: As most of the raw materials used by Jocil are imported from Malaysia and Indonesia, any changes in the policy framework/custom structure by those nations would have a direct impact on the operation of Jocil. However, in India, refineries with huge capacities have been setup for processing Crude Vegetable Oils like Palm Oil mainly imported from Malaysia and Indonesia and some that is available domestically. By-products generated from these refineries viz., RBD Palm Stearin (RBDPS) and Palm Fatty Acid Distillate (PFAD) are the raw materials to the Company. As a result, the Company indirectly depends on imports of crude vegetable oils. The Malaysian and Indonesian government impose export duty varying from time to time on crude oil to encourage value addition within their country prior to exports. Further, fluctuation in crude oil (fossil) prices also have impact on edible and no-edible oils due to their usage in production of biofuels.

Volatile raw material prices: Palm Stearin and Palm Fatty Acid Distillate (PFAD) are the major raw materials for manufacture of fatty acids and soaps. The raw materials used by Jocil are imported from Malaysia and Indonesia. There has been significant increase in the raw material prices by 60% during FY22 compared to FY21 which resulted in decline in Jocil's profitability margins. Raw material prices usually fluctuate depending on the demand supply scenario and changes in the policy framework/custom structure by the exporting nations.

Liquidity: Strong
Liquidity position of the company is strong marked by healthy accruals of Rs.13.13 crore as of March 31, 2022, with no fixed repayment obligations. Further, cash and bank balances as of March 31, 2022, remained moderate at Rs.2.25 crore. Cash balances declined in last three years as the company has been funding the working capital requirements without utilizing WC limits and regular capex also via internal accruals. However, going forward, Jocil is intending to utilize the working capital limits which will help them to build the cash reserves in case of any exigencies. Current average max utilization of fund based working capital for last 12 months ended May 2022 stands at ~23% which provides additional cushion in case of increased WC requirement. There are no debt raising plans in the near term.

Analytical approach: Standalone financials of Jocil has been considered for analysis. Further, the rating factors in linkages with The Andhra Sugars Limited (TASL) in the form of business and financial support extended by the latter.

Applicable criteria
Policy on default recognition
Rating Outlook and Credit Watch
Factoring linkages -Parent Sub JV Group
Financial ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Short term Instruments
Manufacturing companies

About the company
Jocil Limited (Jocil) was incorporated in February 1978 as Andhra Pradesh Oil and Chemicals Limited which, later in 1992 was renamed as Jocil Limited. Jocil is primarily engaged in the manufacturing of fatty acids, stearic acid, refined glycerin, soap noodles, toilet soap and its by-products and industrial oxygen at its manufacturing facility in Doki parru village, Guntur district, Andhra Pradesh. The company also has a 6 MW biomass cogeneration captive power plant at the same premises. Further, Jocil has four Wind Energy Generators (WEG) in the state of Tamil Nadu, the power generated is sold to Tamil Nadu Generation & Distribution Corporation Ltd (TANGEDCO). Jocil Limited is listed on National Stock Exchange (NSE), India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Published)	Q1FY23 (Published)
Total operating income	565.41	753.78	284.40
PBILDT	20.94	15.63	5.05
PAT	13.61	7.13	2.29
Overall gearing (times)	0.01	0.02	0.14
Interest coverage (times)	23.56	90.25	12.02

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	81.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	29.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	81.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Positive (11-Nov-20)	1)CARE A-; Stable (26-Nov-19)
2	Non-fund-based - ST-BG/LC	ST	29.00	CARE A2+	-	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (11-Nov-20)	1)CARE A2 (26-Nov-19)
3	Fixed Deposit	ST	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A2+ (FD) (11-Nov-20)	1)CARE A2 (FD) (26-Nov-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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