Jocil Limited

August 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	51.00 (Reduced from 81.00)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	29.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Jocil Limited considers support derived from parent company and cash flow fungibility between parent and its subsidiary in case of exigencies, established track record of the company in toiletry products industry, association with the reputed clients backed by regular orders from institutional buyers albeit concentrated, improvement in total operating income (TOI) and profitability levels in FY23 (FY refers to the period April 01 to March 31) led by increase in sales realizations, healthy financial risk profile, comfortable operating cycle, diversified revenue streams, benefit derived from captive power plant, experienced & strong promoters and strong liquidity.

The rating strengths are however partially offset by subdued performance in Q1FY24, decreasing trend of profit margins due to limited bargaining power with its customers, volatility in raw material prices, inability to entirely pass on the increase in prices of raw materials, exposure to government regulations, and fragmented industry with intense competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations with TOI of above Rs.1000 crore.
- Ability of the company to renegotiate the conversion charges with its key customers resulting in improved PBILDT margins to more than 5% on a sustained basis.

Negative factors

- Increased reliance on debt levels leading to deterioration in overall gearing above 0.50x.
- Significant rise in working capital weakening the financial risk profile.

Analytical approach: Standalone financials of Jocil Limited has been considered for analysis while factoring in linkages with The Andhra Sugars Limited (TASL) considering cash flow fungibility between parent and its subsidiary.

Outlook: Stable. The 'Stable' outlook on the ratings of Jocil Limited reflects CARE's expectation to sustain its comfortable financial risk profile and sustenance of financial and operational performance in medium to long term.

Detailed description of the key rating drivers:

Key strengths

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 50% 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.

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

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.

Increase in total operating income and profitability in FY23: In FY23, total operating income (TOI) increased by about 21.95% i.e., to Rs. 919.27 crores from Rs. 753.78 crores at the back of higher sales volume of fatty acids with sustained demand for toilet soaps and higher selling prices of fatty acids and soap products. The sales volume of fatty acids grew by 17.36%, while soap products maintained a steady volume similar to the previous year. Further, the average sales realization of major products, fatty acids, and soap products improved by 8.24% and 12.82%, respectively. During FY23, capacity utilisation of fatty acids and soap products improved to 104% and 63% compared to 90% and 58% in FY22 respectively. With increase in TOI, profitability levels of Jocil i.e., PBILDT and PAT levels stood at Rs. 17.71 crore (PY: Rs. 15.63 crores) and Rs. 9.99 crores (PY: Rs. 7.13 crores) with growth of 13.31% and 40.11% respectively.

Healthy capital structure coupled with strong coverage indicators: The capital structure of the company remains healthy with nil long term debt equity ratio. Debt outstanding is entirely working capital in nature and as on March 31, 2023, total debt is Rs.1.60 crore. As a result, overall gearing ratio stands at 0.01x as of March 31, 2023, Other debt coverage indicators, interest coverage ratio though deteriorated, remained healthy at 15.54x (PY: 90.27x). In FY23, interest expense increased due to processing charges paid towards enhancement in working capital limits and further to support the operations, promoters infused Rs.35 crore during the year which is interest bearing. The unsecured loans were repaid within a period of 4 months through accruals generated from regular operations.

Comfortable operating cycle: Operating cycle of the company stood at 56 days in FY23 as against 67 days in FY22. 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, 2023, total receivables stood at Rs.72.87 crore out of which receivables less than 6 months constituted 90%. Collection period improved to 29 days in FY23 (PY: 38 days) and with stable inventory and credit days, operating cycle improved marginally and remained comfortable.

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. 35 crore to support the working capital requirements of Jocil.

Key weaknesses

Declined profitability margins in FY23: Despite increase in TOI over the period of last four years ended FY23, PBILDT margin has been on a declining trend. Given that Jocil has limited bargaining power as the customers are large players in the industry and potential risk of losing customers to vertically integrated competitors who can hedge raw material prices, the company is offering dynamic prices to its customers considering all these aspects and in view of long-term relationship. In FY23, PBILDT margin declined though marginally by 14 bps to 1.93% (FY22: 2.07%) on account of higher raw material prices. Further, in FY23, power and fuel cost increased by 68.5% with steep rise in coal and rice husk used in power generation also impacted the profitability.
However, PAT margin improved by 14 bps at the back of non-operating income which includes interest, dividend and excess provision reversed and credit balance write back.

Subdued financial performance in Q1FY24: In Q1FY24, TOI of the company stood at Rs. 180.13 crores which is lower by 36.67% compared to corresponding quarter of previous year and 9.98% against previous quarter with decreased selling prices of toiletary products at the back of correction in RM prices by 17% compared to FY23 and declined sales volume of fatty acids and soap products by 10% compared to previous quarter with low order flow. With declined TOI, PBILDT margin of the company reduced to 1.70% on account of fixed overhead and other operating costs. However, orders flow specially from soap products has been picked up from Q2FY23 which is expected to keep the financial performance of the company intact with FY23.

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. any adverse change in the same might impact the profitability of the company in the already competitive industry.

Liquidity: Strong
Liquidity position of Jocil is strong marked by cash accruals of Rs. 16.20 crore in FY23 with no term debt obligation. Further, cash and bank balances as of March 31, 2023, remained moderate at Rs. 5.61 crore. The company has working capital limit of Rs. 80 crores as on June 30, 2023, and average utilisation of fund based working capital for last 12 months ended June 2023 stands low at ~4.69%. With downtrend in raw material prices with correction may result in lower requirement of WC limits. Though, Jocil reduced the working capital limits, company will have sufficient cushion to meet the WC requirement. Also, there are no capex plans in near future and hence no term debt requirements.

Environment, social, and governance (ESG) risks:

Environmental: Jocil is complying with The Hazardous Wastes (management, Handling and Transboundary Movement) Rules, 2008 and maintaining certain parameters like water and wastage disposal and air emissions as per PCB regulations.

Social: The Company is extending financial assistance to educational Institutions/Trusts for promotion of education irrespective of religion, caste etc. The Company employed 808 persons as on 31st March 2022 both in the factory and office. The Management of the Company maintains good relations with the employees. There have been no labour problems since the inception of the Company in 1980.

Governance: The Company is committed to maintain the standards of Corporate Governance prescribed under SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (Listing Regulations). The company has always adopted high standards of governance. Its business processes are crafted to enhancing the value that the Company can create for the stakeholders viz., Shareholders, Employees, Customers, Suppliers, Lenders, Government and other parties having association with the company.

Applicable criteria

Policy on default recognition
Rating Outlook and Credit Watch
Policy on Withdrawal of Ratings
Financial Ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector
Rating Methodology - Parent Sub JV Group
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Personal Products	Personal Care

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 Dokiparru 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, 2022 (A)	March 31, 2023 (UA)	Q1FY24 (UA)
Total operating income	753.78	919.32	180.13
PBILDT	15.63	17.75	3.06
PAT	7.13	10.51	1.34
Overall gearing (times)	0.02	0.01	NA
Interest coverage (times)	90.27	15.62	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	51.00	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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	51.00	CARE A-; Stable	-	1)CARE A-; Stable (18-Aug-22)	1)CARE A-; Stable (06-Oct-21)	1)CARE A-; Positive (11-Nov-20)
2	Non-fund-based - ST-BG/LC	ST	29.00	CARE A2+	-	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (06-Oct-21)	1)CARE A2+ (11-Nov-20)
3	Fixed Deposit	ST	-	-	-	-	1)Withdrawn (06-Oct-21)	1)CARE A2+ (FD) (11-Nov-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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