Fairchem Organics Limited

August 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	123.99	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	2.25	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	5.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale & Key rating drivers

The ratings assigned to the bank facilities of the Fairchem Organics Limited (FOL) continue to derive strength from its experienced and resourceful promoters, long-standing operational track record in the manufacturing of specialty chemicals having diverse industry applications, leadership position in the domestic market for its products and its established relations with the reputed customers. The ratings continue to factor its moderate scale of operation, comfortable capital structure, debt coverage indicators and its strong liquidity. The ratings also factor in moderation in its profitability during FY23 (FY refers to the period from April 1 to March 31).

The ratings however, continue to remain constrained on account of FOL's presence in the niche market, risk of substitutability through low-cost Chinese imports and susceptibility of profitability to volatile raw material prices and fluctuations in the forex rate. The ratings are further constrained due to its exposure to technology obsolescence risk and stringent pollution control norms.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Growth in the scale of operations marked by total operating income (TOI) of more than ₹1,000 crore along with earning profit before interest, lease, depreciation and tax (PBILDT) margin of around 18% on a sustained basis.
- Diversification of revenue stream in terms of products as well as customers.

Negative Factors

- Decline in its scale of operations marked by TOI of less than ₹400 crore with PBILDT margin of less than 13% on a sustained basis.
- Elongation in its operating cycle beyond 100 days affecting its liquidity.
- Any large-size debt-funded capex leading to moderation in its overall gearing beyond 0.60x.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited (CARE Ratings) expectation of FOL sustaining its financials risk profile in the medium term on the back of its dominant position in niche specialty chemical products in the domestic market along with reputed customer base.

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

Detailed description of the key rating drivers:

Key Strengths

Experienced and resourceful management

FOL is led by Nahoosh Jariwala (the Chairman and Managing Director), who has an experience of more than 25 years in chemical manufacturing and trading of various textile products. He looks after the core operations of the company, including process optimisation, product development, production planning, etc. He is well supported by a qualified second-tier management. As on June 30, 2023, Canada-based FIH Mauritius Investment Limited (FMIL) holds 52.83% equity stake (52.83% as on June 30, 2022) in FOL. FMIL is an investment arm of Fairfax India Holdings Corporations (Fairfax India) founded in 2014 by V. Prem Watsa, having diverse investment portfolio with fair value of ₹24,534 crore in India as on March 31, 2023. The investment portfolio of Fairfax India includes IIFL Finance Limited, 360 ONE (formerly IIFL Wealth Management Limited), IIFL Securities Limited, CSB Bank Limited, Bangalore International Airport Limited, Seven Islands Shipping Limited, 5paisa Capital Limited and National Commodities Management Services Limited amongst others.

Established track record of operations along with diverse industry applications

FOL had been operating in the specialty chemicals segment for more than two decades, wherein it manufactures niche products having diverse industry applications. Over the period, the company had increased its processing capacity from 10,000 metric ton per annum (MTPA) as on March 31, 2011 to 1,20,000 MTPA as on March 31, 2023. The company is primarily engaged in the manufacturing of dimer acid and linoleic acid, which find application in industries like paints, printing ink, polyamides and adhesives. FOL's product portfolio also includes mixed tocopherol concentrate and concentrated sterols under nutraceuticals segment whose overall proportion in sales mix remained low over the period. Furthermore, the company has developed new product Isostearic acid which find application in personal care, cosmetics and bio-degradable lubricants. The product is in the trial phase with commercial production is expected from Q2FY24 onwards with export being main target market.

Reputed clientele with leadership position in domestic market creating entry barriers to other players

FOL has well-entrenched customer base in high-growth industries like paint, ink, printing and fast-moving consumer goods (FMCG) among others in the domestic as well as export markets. FOL has association with reputed and diversified clientele, which includes companies like Asian Paints Limited, Uniform Synthetics, Resins & Plastics Limited, Astral Limited, Archer Daniels Midland Company (USA) and Arkema Chemicals India Private Limited, among others. During FY23, the top 10 customers contributed around 66% of its net sales (FY22: 71%), with the top customer contributing around 37% (FY22: 40%) reflecting moderate customer concentration. However, majority of FOL's clientele enjoy leading position in their respective industry segments and hence the credit risk is envisaged to be minimal. FOL enjoys a leadership position in the industry in terms of fatty acid-based products, mainly dimer acid and linoleic acid, in India. FOL manufactures its products through fatty acid (which is 1%-1.50% of waste generated during edible oil refining) providing it the cost advantage as compared to other players, who manufacture these products using prime oil. The total availability of the fatty acid in India is limited. FOL, over a period of time, has developed strong relations with its suppliers and has established procurement network, ensuring a steady supply of raw material. Cost advantage, established procurement network and limited market size act as barriers for other players in the industry.

Stable scale of operation with moderation in profitability in FY23

FOL has exhibited growing scale of operation, with a growth in its TOI at a compounded annual growth rate (CAGR) of 27% in the last five years ended March 31, 2023, with periodic capacity addition and steady growth in the sales volume. FOL had developed a variant of linoleic acid catering to the requirement of the paint industry, which is the key growth driver in the last 2-3 years. However, during FY23, TOI of FOL remained stable at ₹648.21 crore as compared to ₹643.29 crore during FY22 amidst high volatility in input prices. Linoleic acid and dimer acid are the major products of FOL, which form around 73% of the net sales during FY23 (FY22: 75%). The nutraceuticals segment in FOL's total revenue has remained low mainly due to unremunerative prices of the end-products.

FOL has healthy profitability marked by PBILDT margin which reduced in FY23 to 11.19% as compared with 16.32% during FY22 due to volatility in commodity prices. However, going forward CARE Rating expects margins to improve to normal levels in range of 13%-15% with decline in fuel prices and decline in input prices. Furthermore, the commercialisation of its new product Isostearic acid is expected to support growth and profitability in the medium term.

Comfortable capital structure and debt coverage indicators

FOL's overall gearing remained comfortable and improved over the years with steady accretion of the profit to net-worth base and largely stable debt levels. The overall gearing and total outside liability (TOL) to tangible net worth (TNW) improved and remained comfortable at 0.19x and 0.27x, respectively, as on March 31, 2023, as compared with 0.27x and 0.34x, respectively, as on March 31, 2022. PBILDT interest coverage and total debt to GCA (TDGCA) have remained healthy at 11.66x and 0.94x respectively, during FY23 as compared to 15.33x and 0.81x respectively during FY22. With no major debt-funded capex planned, CARE Rating expects FOL to maintain its comfortable capital structure in the medium term.

Stable demand outlook

The products manufactured by FOL find application in high-growth consumer goods industries like nutraceuticals, paints, printing ink, adhesives, soap manufacturing, etc. Furthermore, its new product isostearic acid has applications in personal care, cosmetics and bio-degradable lubricants. All these industries are expected to grow at a steady rate in the medium term due to factors such as rising population, increase in disposable income, increase in penetration of e-commerce, which increases the demand for packaging and printing ink industry and increasing spending on healthcare and nutrition products.

Key weaknesses

Presence in niche market with competition from low-cost Chinese products

The industry size for dimer acid and linoleic acid is relatively small as compared with the overall size of the speciality chemical industry, which limits the growth of the company. Furthermore, FOL faces competition from the low-cost product imports from China, especially dimer acid. However, FOL has been able to gain market share in India with its apt pricing strategy and cost advantages.

Susceptibility of the profitability to volatile raw material prices and forex rates

Vegetable oil distillate and fatty acid oil are the main raw materials for FOL. These raw materials are the by-products of soya and sunflower oils generated during their refining process as by-products. The prices of both these oils have remained volatile and witnessed sharp fluctuations in the last two years for various reasons. Major portion of its raw material requirement is procured domestically with some import. The profitability of FOL is susceptible to volatile agro-based raw material prices and forex rates in absence of active hedging policy. However, FOL reported unrealised foreign exchange gain in last two years ended FY23.

Stringent pollution control norms

There is stringent pollution control regulation laid down for chemical processing units under the Gujarat Pollution Control Board (GPCB) norms. The company during its production process generates polluted water and air that needs to be treated before their disposal. Compliance with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would adversely impact FOL's operations. FOL has zero liquid discharge facility with adequate hazardous and non-hazardous waste disposal mechanism in place. Continuous adherence to the prevailing pollution-control norms would remain crucial from the credit perspective.

Product obsolescence and substitution risks

The companies like FOL, which operate in the niche specialty chemical segment, carry risk in terms of challenges emanating from the development of alternative technologies and introduction of newer products, and hence are exposed to the risk of product obsolescence and substitution. However, FOL has expanded its R&D capabilities, which facilitate the launching of new derivatives of its existing products to its product portfolio.,

Environment, social, and governance (ESG) risks

Risk Factors	Compliance and action by the company
Environmental	FOL has zero liquid discharge facility and all solid waste goes to co-processing unit and then utilized by the cement units or GPCB approved landfill sites. The company also has rain water harvesting facility and had carried out various tree plantation activities.
Social	The company undertakes regular safety trainings in the plant premises to achieve the goal of zero incident and developed various policies to benefit employees and workers, which include employment rights, safety practices, suggestion scheme, canteen facilities, etc. It also conducts awareness training on human rights at workplace for all the employees & workers of our organization.
Governance	The Company has required committees and policies in place, which include corporate social responsibility, a code of conduct, a whistle blower mechanism, etc. The Company's Board of Directors comprises six Directors, which include four Independent Directors, one Nominee Director and Managing Director.

Liquidity: Strong

Liquidity of FOL is strong marked by healthy cash accruals against nil term debt repayment obligations, moderate liquidity ratios and low utilization of fund-based limit. The average monthly fund-based utilization remained low at 29% for last 12-months ended June 30, 2023. FOL is expected to generate healthy cash accruals which would be sufficient to cater to its incremental capex requirement. Cash flow from operation improved and stood strong at ₹49.62 crore during FY23 as compared with ₹ 40.49 crore during FY22. Also, its current ratio and quick ratio remained at 2.23x and 1.03x respectively as on March 31, 2023 as compared with 1.77x and 0.87x respectively as in March 31, 2022. The operating cycle of the company increased but remained at moderated level of 76 days during FY23 as compared with 63 days during FY22.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Fairchem Organics Limited (CIN: L24200GJ2019PLC129759) was established in 2019, wherein Fairchem Speciality Limited (FSL) transferred the businesses of Oleo chemicals and nutraceuticals (entire business of FSL) as per the scheme of demerger. FOL is engaged in the manufacturing of specialty chemicals like dimer acid, linoleic acid, mixed tocopherol concentrate and sterols concentrate, which find application in various industries like nutraceuticals, paints, printing ink, detergents, adhesives, etc. FOL's manufacturing facility is located at Chekala village near Sanand, Gujarat, with an installed capacity of 120,000 MTPA as on March 31, 2023.

FSL (formerly known as Adi Finechem Limited) was promoted by Rajan Harivallabhdas in May 1985. During FY10, Rajan Harivallabhdas sold his stake to three new promoters, namely, Utkarsh Shah, Bimal Parikh and Hemant Shah. Moreover, during FY16, Fairfax India, through its wholly owned subsidiary, FIH Mauritius Investment Limited (FMIL), acquired controlling equity stake in FSL. FMIL holds 52.83% equity stake in FOL as on June 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Ab)
Total operating income	643.29	648.21
PBILDT	104.97	72.54
PAT	67.91	43.50
Overall gearing (times)	0.27	0.19
Interest coverage (times)	15.33	11.66

A: Audited; Ab: Abridged; 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 the last three years: Please refer Annexure-2

Covenants of rated instruments / facility: Not applicable

Complexity level of various instruments rated: Annexure- 4

Lender details: Annexure-5

Annexure 1: Details of Instrument/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	123.99	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.25	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A1+

Annexure 2: Rating History of 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-Term Loan	LT	-	-	-	1)Withdrawn (18-Aug-22)	1)CARE A+; Stable (20-Aug-21)	1)CARE A; Stable (08-Mar-21) 2)CARE A; Stable (16-Sep-20)
2	Fund-based - LT-Cash Credit	LT	123.99	CARE A+; Stable	-	1)CARE A+; Stable (18-Aug-22)	1)CARE A+; Stable (20-Aug-21)	1)CARE A; Stable (08-Mar-21) 2)CARE A; Stable (16-Sep-20)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.25	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (18-Aug-22)	1)CARE A+; Stable / CARE A1+ (20-Aug-21)	1)CARE A; Stable / CARE A1 (08-Mar-21) 2)CARE A; Stable / CARE A1 (16-Sep-20)
4	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1+	-	1)CARE A1+ (18-Aug-22)	-	-

** Long Term / Short Term*

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

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 - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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