

Fairchem Organics Limited

July 04, 2024

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 and key rating drivers

Ratings assigned to bank facilities of Fairchem Organics Limited (FOL) continue to derive strength from its experienced and resourceful promoters, long-standing operational track record in manufacturing specialty chemicals having diverse industry applications, leadership position in the domestic market for its products, and its established relation with reputed customers. Ratings also continue to factor in FOL's moderate scale of operations, strong capital structure, healthy debt coverage indicators, and its strong liquidity.

The ratings, however, continue to remain constrained on account of moderation in FOL's profitability in FY23 which remained largely stable in FY24, its presence in a niche market, risk of low-cost Chinese import substitutes, and susceptibility of profitability to volatile raw material prices and fluctuations in the forex rate. 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 scale of operations marked by total operating income (TOI) of more than ₹1,000 crore along with earning profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of more than 15% on a sustained basis.
- Diversification of revenue stream in terms of product as well as customer diversification.

Negative factors

- Sales volume driven de-growth in its scale of operations with TOI falling below ₹400 crore or moderation in PBILDT margin below 13% on a sustained basis.
- Large size debt-funded capex leading to moderation in its overall gearing beyond 0.60x.
- Elongation in its operating cycle beyond 100 days affecting its liquidity.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of FOL sustaining its financial 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.

Detailed description of 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, and production planning, among others. He is well supported by a qualified second-tier management. As on March 31, 2024, FIH Mauritius Investment Limited (FMIL) holds 52.83% equity stake in FOL. FMIL is an investment arm of Fairfax India Holdings Corporations (Fairfax India), part of Canada-based Fairfax group founded in 2014 by V. Prem Watsa, having diverse investment portfolio with fair value of ₹24,506 crore in India as on March 31, 2024.

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

The investment portfolio of Fairfax India includes IIFL Finance Limited, IIFL Securities Limited, CSB Bank Limited, Bangalore International Airport Limited, Seven Islands Shipping Limited, Spaisa Capital Limited, and National Commodities Management Services Limited among others.

Established track record of operations and diverse industry applications

FOL has 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 120,000 MTPA as on March 31, 2024. The company is primarily engaged in manufacturing dimer acid and linoleic acid, which finds application in industries such as 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 finds application in personal care, cosmetics and bio-degradable lubricants. The company has started commercial production and its first shipment was dispatched to Europe in March 2024.

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 and export markets. FOL has association with marquee clientele, which includes companies like Asian Paints Limited, Uniform Synthetics, Astral Limited, Archer Daniels Midland Company (USA) and Arkema Chemicals India Private Limited, among others. During FY24, the top 10 customers contributed around 70% of its net sales (FY23: 66%), with the top customer contributing around 31% (FY23: 37%) 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 also has 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 acid oil (which is 1%-1.50% of waste generated during edible oil refining) and mixed fatty acid 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, 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 a barrier for other players in the industry.

Stable scale of operation, albeit moderation in profitability

The TOI of FOL remained stable at ₹622.49 crore in FY24 as compared to ₹648.21 crore in FY23 amidst high volatility in input prices. FOL achieved overall volume growth of around 19% during FY24 as compared to previous year, however, the sales realization declined on account of declining trend in input prices due to which the company reported largely stable TOI in FY24. Linoleic acid and dimer acid are the major products of FOL, which formed around 72% of net sales during FY24 (FY23: 73%). The contribution of nutraceuticals segment in FOL's total revenue remained low mainly due to unremunerative prices of the end-products.

The profitability of FOL moderated during the past two years however, remained comfortable marked by PBILDT margin of 10.92% in FY24 which was in line with 11.19% in FY23. The decline in profitability in FY23 and FY24 was mainly due to start-up losses in stabilizing the new product, Isostearic acid, and volatility in edible oil prices. However, going forward CARE Ratings expects margins to improve in range of 13%-15% with stabilisation of input prices and commercialisation of its new product, Isostearic acid, which is expected to support growth and profitability in the medium term.

Strong capital structure and debt coverage indicators

FOL's capital structure remained strong with overall gearing of 0.03x as on March 31, 2024, as compared to 0.19x as on March 31, 2023 with steady accretion of the profit to net worth base and reduction in debt levels. Total outside liabilities to tangible net worth (TOL/ TNW) was also comfortable at 0.10x as on March 31, 2024. With moderate profitability and low debt reliance, debt coverage indicators continued to remain healthy with PBILDT interest coverage and total debt to gross cash accruals (TDGCA) of 16.05x and 0.14x, respectively, in FY24 as compared to 11.66x and 0.94x, respectively, in FY23. With no major debt-funded capex planned, CARE Ratings expects FOL to maintain its strong capital structure in the medium term.

Stable demand outlook

The products manufactured by FOL find application in high-growth consumer goods industries like paints, printing ink, adhesives, soap manufacturing, nutraceuticals, among others. 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 spend 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 to the overall size of the speciality chemical industry, which limits the growth of the company. Furthermore, FOL faces competition from the low-cost imports from China, especially dimer acid. However, FOL has been able to gain large market share in India with its apt pricing strategy and cost advantages.

Susceptibility of 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 soft edible oils such as soya and sunflower oil, 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 driven by demand supply dynamics. Major portion of FOL's 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.

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 in 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, operating 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 launching of new derivatives of its existing products thus expanding its product portfolio.

Liquidity: Strong

FOL's liquidity is strong marked by healthy cash accruals against nil term debt repayment obligations, moderate liquidity ratios, and low utilisation of fund-based limit. The average monthly fund-based utilisation remained low at 19% for last 12-months ended April 2024. FOL is expected to generate healthy cash accruals which would be sufficient to cater to its incremental capex requirement and company is not planning to avail any term debt in near to medium term. Cash flow from operation improved and stood strong at ₹74.48 crore in FY24 as compared to ₹49.62 crore in FY23 with release of funds from inventory and receivables. The company's operating cycle remained stable at 76 days in FY24.

Assumptions/Covenants: Not applicable

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 utilised 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, and canteen facilities, among others. It also conducts awareness training on human rights at workplace for all the employees and workers of our organisation.
Governance	The company has required committees and policies in place, which include corporate social responsibility, a code of conduct, a whistle blower mechanism, among others. The Company's Board of Directors comprises six Directors, which include four Independent Directors, one Nominee Director, and Managing Director.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

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 manufacturing specialty chemicals such as dimer acid, linoleic acid, mixed tocopherol concentrates and sterols concentrate, which find application in various industries such as nutraceuticals, paints, printing ink, detergents, and adhesives, among others. FOL's manufacturing facility is at Chekala village near Sanand, Gujarat, with an installed capacity of 120,000 MTPA as on March 31, 2024.

FSL (formerly known as Adi Finechem Limited) was promoted by Rajan Harivallabhdas in May 1985. In FY10, Rajan Harivallabhdas sold his stake to three new promoters, Utkarsh Shah, Bimal Parikh, and Hemant Shah. Moreover, in 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 March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	648.21	622.49
PBILDT	72.54	68.00
PAT	43.50	40.50
Overall gearing (times)	0.19	0.03
Interest coverage (times)	11.66	16.05

A: Audited; 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: 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 instrument/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		-	-	-	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 2024-2025	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
1	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (18-Aug-22)	1)CARE A+; Stable (20-Aug-21)
2	Fund-based - LT-Cash credit	LT	123.99	CARE A+; Stable	-	1)CARE A+; Stable (03-Aug-23)	1)CARE A+; Stable (18-Aug-22)	1)CARE A+; Stable (20-Aug-21)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	2.25	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (03-Aug-23)	1)CARE A+; Stable / CARE A1+ (18-Aug-22)	1)CARE A+; Stable / CARE A1+ (20-Aug-21)
4	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1+	-	1)CARE A1+ (03-Aug-23)	1)CARE A1+ (18-Aug-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure -3: Detailed explanation of covenants of rated instrument/facilities: Not applicable**Annexure -4: Complexity level of various instruments rated**

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 detailsTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of 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:

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