Jocil Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	22.00 (Reduced from 51.00)	CARE A-; Stable	Reaffirmed
Short-term bank facilities	28.00 (Reduced from 29.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Jocil Limited (Jocil) continues to derive comfort from established track record of the company in toiletry products industry, association with the reputed clients backed by regular orders from institutional buyers despite concentrated, comfortable financial risk profile, diversified revenue streams, benefit derived from captive power plant, and experienced and resourceful promoters. Ratings consider improved operational and financial performance in Q1FY25 (FY refers to April 01 to March 31), positive cash flows from operations with efficient working capital management and adequate liquidity position. Ratings also derive comfort from the surrender of working capital limits of ~₹25 crore and limited reliance on working capital limits in FY24.

CARE Ratings Limited (CARE) notes that one of the major customers for JOCIL revised rates of products from Q2FY25, which is expected to improve the company's profitability margins going forward. Considering increasing demand in the FMCG segment, the company commenced marginal capex to increase its installed capacity, which is expected to be funded from internal accruals. The company's ability to bag high volume orders, increase installed capacity without additional debt while maintaining profitability and leverage levels would be a key rating monitorable.

However, rating strengths are partially offset by subdued financial performance in FY24 marked by decline in the total operating income (TOI) and moderation in profitability margins. Contribution of high margin soap products declined by 10% and inability to entirely pass through raw material prices and increased overhead costs to its customers resulted in moderated profitability. Ratings also continue to remain constrained by limited bargaining power of Jocil with its customers, raw material price volatility, exposure to government regulations, and fragmented industry with intense competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations with TOI of above ₹1000 crore
- Renegotiating conversion charges with its key customers resulting in improving profit before interest, lease rentals depreciation, and taxation (PBILDT) margins to over 5% on a sustained basis.

Negative factors

- Increasing reliance on debt levels leading to deteriorating in overall gearing above 0.50x
- Significantly rising working capital, weakening financial risk profile.

Analytical approach: Standalone financials of Jocil has been considered for analysis, while factoring linkages with The Andhra Sugars Limited (TASL) with support from parent company on need basis.

Outlook: Stable.
The 'Stable' outlook on ratings of Jocil reflects CARE Ratings' expectation improve its operational and financial performance and support from parent company TASL on need basis.

Detailed description of key rating drivers:

Key strengths

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

Experienced promoter group with established track record

Jocil has over 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), with established business operations based in South India. J. Murali Mohan, Managing Director, has over four decades of experience in the industry and other directors of the company are also experienced and well-qualified. Jocil's day-to-day operations are supported by an experienced and professional team down the line.

Reputed customer base despite being concentrated

Jocil's customers include reputed client base with its sales being to major players in India such as Hindustan Unilever Limited (HUL), Reckitt Benckiser Group (RB), ITC Limited, and MRF Limited, among others. The company established long-standing relationship with these customers resulting in repetitive orders year-on-year. However, Jocil faces customer concentration risk with ~50% of revenue derived from one customer. Risk is partially mitigated by way of repetitive orders from the customer.

Healthy capital structure and strong coverage indicators

The company's capital structure remains healthy with nil long term debt equity ratio. Debt outstanding is entirely working capital and as on March 31, 2024. Overall gearing ratio stands healthy at 0.03x from strong net worth and limited reliance on working capital limits. The company's net worth stood at ₹210.58 crore as on March 31, 2024. The company's other debt coverage indicators, interest coverage ratio and total debt to gross cash accruals (TD/GCA) remained healthy at 16.05x (PY: 15.62x) and 0.78 (PY: 0.10x) due to low reliance on debt. Jocil is expanding its existing capacity by 18000 MTs with demand expected from FMCG in the coming years and capex cost will be funded through internal accruals. The management has articulated that the parent company will provide support to Jocil in short term exigencies.

Comfortable operating cycle

The company usually makes payments within 10-15 days for its suppliers and extend a credit period of 30-45 days for its customers. The company's operating cycle stood comfortable at 59 days as on March 31, 2024, against 56 days as on March 31, 2023, considering comfortable collection period and quick movement in inventory to 33 days (PYE: 29 days) and 44 days (PYE: 39 days) respectively.

Key weaknesses

Subdued financial performance with declined profitability margins in FY24:

In FY24, the company's operational performance was stable, with near-full capacity utilisation of fatty acids, of which, 26% was used internally for soap production. However, TOI declined by 18.02% to ₹753.73 crore due to lower selling prices amidst intense competition and reduced revenue from higher-margin soap products segment, which saw a 20% drop in sales volume. Its inability to fully pass on rising input, power, and fuel costs due to limited bargaining power further impacted profitability. As a result, PBILDT and prfit after tax (PAT) declined to ₹5.31 crore and ₹1.73 crore, respectively, with margins of 0.70% and 0.23% respectively.

In Q1FY25, the company saw recovery with TOI of ₹237.70 crore, reflecting y-o-y growth of 31.72% and Q-o-Q growth of 30.01%. The company's PBILDT and PAT margins improved to 1.74% and 0.86% respectively driven by increased revenue contribution from soap products. With full capacity utilisation of fatty acids and 34% internally consumption of soap production, sales volumes of soap products surged by 70% compared to Q1FY25. The company expects strong orders from FMCGs for soap products, which boost profitability going forward, and revision in rates with one of the major customers from Q2FY25. The company's ability to bag high volume orders, while maintaining profitability would be a key rating monitorable.

Susceptible to raw material price volatility in nonedible oils and its derivatives impacting profitability

Major raw material required for manufacturing of soap noodles includes non-edible oils including palm oil, rice bran oil, shea olein and derivatives – fatty acids such as palm fatty acid distillate (PFAD), rice bran fatty acid, and lauric acid among others, which contribute ~80-83% of total TOI. These products are derivates of crude vegetable oils and are volatile. Adverse changes in these prices may impact profitability.

Exposure to government regulations

In India, refineries with huge capacities have been setup for processing crude vegetable oils such as palm oil mainly imported from Malaysia and Indonesia. By-products generated from these refineries such as , RBD palm stearin (RBDPS) and PFAD are the company's raw materials. As a result, the company indirectly depends on imports of crude vegetable oils. Malaysian and Indonesian governments impose export duty varying periodically on crude oil to encourage value addition within their country prior to exports. Fluctuation in crude oil (fossil) prices also have impact on edible and no-edible oils due to their usage in production of biofuels. Adverse changes might impact the company's profitability in the already competitive industry.

Liquidity: Adequate.

Jocil's liquidity is adequate marked by cash accruals of ₹7.25 crore as of March 31, 2024, with no term debt obligation. Free cash and bank balances as of March 31, 2024, remained at ₹25.25 crore. The company has working capital limit of ₹27 crore as on July 31, 2024, and average of utilisation of fund based working capital for 12-months ended June 2024 stands at ~10%. Jocil reduced its working capital limits from to ₹27 crore in current FY24 considering correction in raw material prices resulting in lower reliance on working capital limits. Despite reduced working capital limits, the company still has sufficient cushion to meet working capital requirement. There are no debt raising plans in the near term.

Assumptions/Covenants: Not applicable

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 such as water and wastage disposal and air emissions per PCB regulations.

Social: The company is extending financial assistance to educational Institutions/Trusts for promotion of education irrespective of religio, and caste among others. The company employed 768 persons as on March 31, 2024, in the factory and office. The company's management maintains good relations with the employees. There have been no labour problems since the company's inception in 1980.

Governance: The company is committed to maintain 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 company's value can create for stakeholders including shareholders, employees, customers, suppliers, lenders, government and other parties having association with the company.

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
Rating Methodology - Parent Sub JV Group

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast moving consumer goods	Personal products	Personal care

Jocil was incorporated in February 1978 as Andhra Pradesh Oil and Chemicals Limited which, in 1992, was renamed as Jocil Limited. Jocil is primarily engaged in manufacturing 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, Andhra Pradesh. The company also has a 6 MW biomass cogeneration captive power plant at the same premises. Jocil has four Wind Energy Generators (WEG) in 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	919.32	753.73	237.70
PBILDT	17.75	5.31	4.14
PAT	10.00	1.73	2.05
Overall gearing (times)	0.01	0.03	NA
Interest coverage (times)	15.62	16.05	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

About the Parent company – TASL:
The Andhra Sugars Limited (TASL) is a diversified company, with presence in sugar and allied activities, chemicals, including chlor alkali and its derivatives, other organic and inorganic chemicals and wind power. t was promoted by Late Dr. Mullapudi Harischandra Prasad and Late P. S. R. V. K. Ranga Rao. TASL commenced its operations as a sugar manufacturer in 1947 and gradually diversified into other businesses.

TASL - Consolidated:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2366.41	1931.51	501.75
PBILDT	298.31	150.58	32.78
PAT	190.57	76.00	15.77
Overall gearing (times)	0.02	0.02	NA
Interest coverage (times)	72.34	103.15	142.32

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	22.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	28.00	CARE A2+

Annexure-2: Rating history for 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-Cash Credit	LT	22.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Aug-23)	1)CARE A-; Stable (18-Aug-22)	1)CARE A-; Stable (06-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	28.00	CARE A2+	-	1)CARE A2+ (14-Aug-23)	1)CARE A2+ (18-Aug-22)	1)CARE A2+ (06-Oct-21)
3	Fixed Deposit	ST	-	-	-	-	-	1)Withdrawn (06-Oct-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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