Fairchem Organics Limited

June 05, 2025

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Fairchem Organics Limited (FOL) is considering moderation in its scale of operations in FY25 (refers to April 01 to March 31) due to subdued demand from key customers and increased competition for its key products, resulting in moderation in its profitability and debt coverage indicators in the period.

However, ratings continue to derive strength from its experienced and resourceful promoters, long-standing operational track record in manufacturing specialty chemicals having diverse industry applications, leading position in the domestic market for its products, and its established relation with reputed customers. Ratings also continue to factor in FOL's low leverage, healthy debt coverage indicators and its strong liquidity.

However, ratings continue to remain constrained considering its presence in a niche market, risk of low-cost Chinese import substitutes, and profitability susceptible to volatile raw material prices and 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 over ₹750 crore and healthy profit before interest, lease rentals, depreciation and taxation (PBILDT) margin on a sustained basis.
- Diversification of revenue stream in terms of product and customer diversification.

Negative factors

- TOI falling below ₹400 crore or further moderation in PBILDT margin from present level.
- Large size debt-funded capex or increase in working capital requirement leading to moderation in total debt to gross cash accruals (TD/GCA) above 2x.
- Elongation in its operating cycle beyond 120 days affecting its liquidity.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CareEdge Ratings) expectation that FOL shall sustain its financial risk profile over the medium term considering its leading position in niche specialty chemical products in the domestic market and its reputed customer base.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful management

FOL is led by Nahoosh Jariwala (Chairman and Managing Director), who has an experience of over 25 years in chemical manufacturing and trading of textile products. He looks after the company's core operations, including process optimisation, product development, production planning among others. He is well-supported by a qualified second-tier management.

As on March 31, 2025, Fairfax India holds 55.32% stake in FOL through its wholly owned subsidiary FIH Mauritius Investment Limited (FMIL) and FIH Private Investments Limited (FPIL) (FMIL and FPIL hold 52.83% and 2.49% stake respectively). FMIL is

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

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 ₹30,393 crore in India as on March 31, 2025.
The investment portfolio of Fairfax India includes IIFL Finance Limited, IIFL Securities Limited, CSB Bank Limited, Bangalore International Airport Limited, Seven Islands Shipping Limited, 5paisa Capital Limited, and National Commodities Management Services Limited among others.

Established track record of operations and diverse industry application
FOL has been one of the leading specialty chemical manufacturers for over two decades, where it manufactures niche products having diverse industry application. Over the period, the company 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, 2025. 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 in the period. The company has commercialised its new product, Isostearic acid, which finds application in personal care, cosmetics and bio-degradable lubricants segment and it generated revenue of ₹35.87 crore in FY25.

Reputed clientele with leading position in domestic market
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 including Asian Paints Limited, Astral Limited, and Arkema Chemicals India Private Limited, among others. In FY25, top 10 customers contributed ~66% of its net sales (FY24: 66%), with the top customer contributing ~31% of net sales (FY24: 31%) 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 leading position in the industry for manufacturing fatty acid-based products, mainly dimer acid and linoleic acid, in India. Over a period, The company has developed strong relations with its suppliers and has established procurement network, ensuring a steady supply of raw materials.

Low leverage and healthy debt coverage indicators
FOL's capital structure remained strong marked by overall gearing and total outside liabilities to total net worth (TOL/TNW) of 0.21x and 0.27x respectively as on March 31, 2025, compared to 0.03x and 0.10x respectively as on March 31, 2024. The moderation in overall gearing was considering high working capital borrowings outstanding as on FY25 end.
Due to low reliance on debt, PBILDT interest coverage and TD/GCA, though moderated, remained healthy at 12.07x and 1.79x respectively in FY25 compared to 16.05x and 0.14x respectively in FY24. FOL has nil term debt outstanding (o/s) on March 31, 2025. With no major debt-funded capex planned, CareEdge Ratings expects FOL to maintain its strong financial risk profile in the medium term.

Key weaknesses

Moderation in scale of operation and decline in profitability
FOL's TOI moderated to ₹539.02 crore in FY25 compared to ₹622.49 crore in FY24 considering decline in its overall sales volume by ~16% on y-o-y basis amidst subdued demand from key customers and increased competition faced in its key products. Linoleic acid and dimer acid are FOL's major products, which formed ~67% of net sales in FY25 (FY24: 72%). The sale of Isostearic acid commercialised in FY25 but its contribution in FOL's total revenue remained low mainly due to an approval process, which took longer than expected.
FOL's profitability also moderated marked by PBILDT margin of 8.21% in FY25 compared to 10.92% in FY24 mainly due to lower absorption of overheads with decline in scale of operations. FOL had to absorb increase in edible oil prices with imposition of additional customs duty (edible oil byproduct being its raw material) and strong competition faced from Chinese imports of dimer acid resulting in lower spread. However, this was offset by higher spread in its other products. The additional customs duty on crude vegetable oil was reduced to 10% from 20% vide government notification dated May 30, 2025. This is expected to result in improvement in gross margin from Q2FY26 onwards.

Presence in niche market with competition from low-cost Chinese products
The industry size for dimer acid and linoleic acid is relatively small compared to overall size of the speciality chemical industry, which limits the company's growth. FOL faces competition from 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.

Profitability susceptible 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 by-products of soft edible oils such as soya and sunflower oil, generated in their refining process as by-products. Prices of both these oils have remained volatile and witnessed sharp fluctuations in the last two years driven by demand supply dynamics and regulatory interventions.

Major portion of FOL's raw material requirement is procured domestically with some import. FOL's profitability is susceptible to volatile agro-based raw material prices and forex rates in absence of active hedging policy. However, FOL reported foreign exchange gain of ₹1.12 crore in FY25 (₹1.02 crore in FY24).

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 disposal. Compliance with stringent pollution control norms set by the regulatory authorities and violation in compliance with these norms or further strengthening 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

Companies such as 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 its own R&D capabilities, which facilitate launching of new derivatives of its existing products, expanding its product portfolio.

Liquidity: Strong

FOL's liquidity is strong marked by healthy cash accruals against nil term debt repayment obligations and low utilisation of fund-based limit. Average monthly fund-based utilisation remained low at 29% for 12-months ended April 2025. FOL is expected to generate healthy cash accruals, which would be sufficient to cater to its incremental capex requirement and the company is not planning to avail term debt in the near-to-medium term. Cash flow from operations (CFO) turned negative to ₹14.79 crore in FY25, compared to ₹73.13 crore positive CFO FY24, due to the increase in inventory and receivables. Consequently, the company's operating cycle increased to 99 days in FY25 compared to 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 a zero liquid discharge facility and all solid waste goes to co-processing unit, and then utilised by cement units or GPCB approved landfill sites. The company also has rainwater harvesting facility and had carried out tree plantation activities.
Social	The company undertakes regular safety trainings in the plant premises to achieve the goal of zero incident and developed 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 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, and 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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Specialty chemicals

FOL (CIN: L24200GJ2019PLC129759) was established in 2019, where Fairchem Speciality Limited (FSL) transferred the businesses of Oleo chemicals and nutraceuticals (entire business of FSL) 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 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, 2025.
As on March 31, 2025, Fairfax India holds 55.32% stake in FOL through its wholly owned subsidiary FIH Mauritius Investment Limited (FMIL) and FIH Private Investments Limited (FPIL; FMIL and FPIL hold 52.83% and 2.49% stake respectively).

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	622.49	539.02
PBILDT	68.00	44.25
PAT	40.50	21.97
Overall gearing (times)	0.03	0.21
Interest coverage (times)	16.05	12.07

A: Audited; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and 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 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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (18-Aug-22)
2	Fund-based - LT-Cash Credit	LT	123.99	CARE A; Stable	-	1)CARE A+; Stable (04-Jul-24)	1)CARE A+; Stable (03-Aug-23)	1)CARE A+; Stable (18-Aug-22)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	2.25	CARE A; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (04-Jul-24)	1)CARE A+; Stable / CARE A1+ (03-Aug-23)	1)CARE A+; Stable / CARE A1+ (18-Aug-22)
4	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A1	-	1)CARE A1+ (04-Jul-24)	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 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 - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CareEdge 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.

Contact us

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About us:

Established in 1993, CareEdge 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 Reserve Bank of India. With an equitable position in the Indian capital market, CareEdge 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, CareEdge 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. CareEdge Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

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