

3F Industries Limited

July 27, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	200.00	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB; Stable; (Triple B; Outlook: Stable)
Long Term / Short Term Bank Facilities	400.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable/ A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB; Stable / CARE A3+; (Triple B ; Outlook: Stable / A Three Plus)
Short Term Bank Facilities	75.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A3+; (A Three Plus)
Total Facilities	675.00 (Rs. Six Hundred Seventy-Five Crore Only)		
Long Term Medium Term Instruments	100.00	CARE BB+ (FD); Stable; ISSUER NOT COOPERATING* [Double B Plus (Fixed Deposit); Outlook: Stable ISSUER NOT COOPERATING*]	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BBB (FD); Stable; [Triple B (Fixed Deposit); Outlook: Stable]

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated January 28, 2021, placed the ratings of 3F Industries Limited (3FI) under the 'issuer non-cooperating' category as 3FI had failed to provide information for monitoring of the ratings. 3FI continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a email dated between May 07, 2021 and July 02, 2021. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in the rating is pursuant to Securities and Exchange Board of India (SEBI)'s circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

Detailed description of the key rating drivers

At the time of last rating on January 28, 2021 the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies):

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Key Rating Strengths

Experienced and resourceful promoters with synergy drawn from global presence of a strong promoter group

3FI is the flagship company of the 3F group. All the directors of the company are instrumental in development of the group and carry more than four decades of experience in trading, extraction and refining of Crude Palm Oil (CPO). The day-to-day operations of the company are taken care by Mr. S. B. Goenka. The promoters have infused funds as and when required in the past in order to fund the company's growing operations, capex requirements and any short-term liquidity requirements on a group level.

Integrated business model with a diverse product basket

The 3F group has end-to-end presence across the value chain from sourcing of raw materials, extraction and refining of crude oil to manufacturing of finished products like Vanaspati, Speciality fats (for confectionaries and bakeries) and by-products like fatty acids, stearines, oleins, glycerine etc. Group is also engaged in fruit plantation, by-product processing and power generation through its biomass power plants and wind mills. The group's diversified revenue stream and focused efforts on processing and sale of high margin products like Shea Stearin, Lauric fats and feed supplements are expected to augur well and boost the top line and profitability margins, going forward.

Satisfactory operational and financial performance during FY19

3FI (standalone) operates its Tadepalligudam plant at nearly 60-65% capacity and Krishnapatnam plant at nearly 85% capacity. The company reported nearly 20% growth in sales volume in FY19 for its major revenue contributing products like refined oils, fatty acids and oleo chemicals and Vanaspati. The TOI on a consolidated level grew by nearly 21% in FY19 marked by growth in sales of the group's key products. Also, the profitability improved in FY19 backed by addition of few high margin products in its portfolio, stabilization in operations of oleo chemicals and shut down of trading activities which had resulted in losses in Africa on a consolidated level in FY18.

Successfully completed Capex

The group has successfully completed Capex amounting to Rs. 80 crore (funded partly through debt and partly through equity infusion of Rs. 22 crore from 3FI) for setting up another unit at Ghana, with a solvent extraction capacity of 60,000 MTPA, under the name 3F Ghana Oils and Fats Limited (3FGO). The unit is expected to commence operations from November, 2019 and contribute to financial performance of the group, going forward.

Key Rating Weaknesses

Leveraged capital structure

The capital structure of the group on a consolidated level, marked by overall gearing improved from 3.28x as on March 31, 2019 to 1.86x as on March 31, 2020 primarily on account of lower debt levels and plough back of profits to reserves. The total debt to GCA of the company continues to remain weak at 7.65x during FY20 although improved significantly from 14.18x during FY19. The PBILD interest coverage ratio, remained stable at 2.10x during FY20 (1.86x in FY19).

Risk associated with volatility in raw material prices

The main input for 3FI (standalone) is CPO which accounted for about 85%-89% of raw material consumption during FY17-FY19, the prices of which are largely volatile in nature. While global CPO prices have been declining since the beginning of FY18 on account of huge inventory pile-up backed by high production, the duty on crude palm oil has increased significantly, reducing the impact of price decline for the Indian palm oil refiners.

Exposed to foreign currency fluctuation risk

CPO is the key raw material for 3FI which is primarily imported from Malaysia and Indonesia. 3FI follows a policy of either hedging the raw material purchased in the commodity exchanges or pricing the end product based on replacement of stocks on fresh purchases which mitigates the risk of fluctuation in raw material prices to a large extent. As on March 31, 2019; the company has hedged nearly ~65% of its exposure while leaving the balance of its exposure unhedged. As the company is a net importer, depreciation of INR against USD could negatively impact the margins of the company to a large extent.

Regulated nature of industry with intense competition

The edible oil industry in India is characterized by intense competition and fragmentation with the presence of large number of units attributable to low entry barriers such as low capital and low technical requirements of the business and a liberal policy regime. As a result of this, profit margins in the edible oil business tend to be thin.

Liquidity: Adequate

The group has adequate liquidity profile characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate liquid funds of Rs. 80.29 crore. The bank limits are utilized to the extent of 77.71% for the twelve months period ended August 2019.

Analytical approach: Consolidated. The ratings of 3FI factors in the combined business and financial risk profiles of 3F Industries Limited (3FI) and its subsidiaries, as mentioned above, together referred to as the 3F group; as the entities collectively have management, business & financial linkages.

3FI contributed ~80-90% of the total consolidated revenue during FY18-FY20, while the balance contribution is from its subsidiaries.

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Consolidation](#)

[CARE's Methodology for Manufacturing Companies](#)

[Financial Ratios- Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector](#)

About the Company and 3F Group

3F Industries Limited (3FI) was promoted by Mr. B K Goenka in 1959. His son, Mr. S B Goenka, is the current Chairman and Managing Director of the company. The 3F group is engaged in refining of edible oils, solvent extraction, manufacturing of specialty fats for the bakery and confectionery segment, fatty acids and oleo chemicals (used in soap manufacturing) at its production facilities in Tadepalligudam and Krishnapatnam, Andhra Pradesh (AP). 3FI is the flagship company of the Hyderabad based 3F group, the group has diverse interests in power generation, textiles, and granite quarrying, besides refining of edible oils and related by-products. The company has a refining capacity aggregating to 289,500 MTPA during H1FY20. 3FI has also set up processing units for by-products like fatty acids, stearines, glycerin, pitch oil, wax and oleo chemicals. The group is one of the leading manufacturers of specialty fats in India, with a diversified product portfolio of the group as a whole. 3FI operates a captive 6 MW capacity biomass power plant and 3.30 MW wind mills.

Brief Financials (Rs. crore) (Consolidated)	FY19 (Audited)	FY20 (Audited)
Total operating income	2676.88	2680.36
PBILDT	167.12	187.08
PAT	31.72	57.10
Overall gearing (times)	3.28	1.86
Interest coverage (times)	1.86	2.10

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Proposed	100.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - ST-EPC/PSC	-	-	-	75.00	CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - LT/ST-Letter of credit	-	-	-	400.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Fund-based - LT-Working Capital Demand loan	-	-	-	50.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fixed Deposit	-	-	-	100.00	CARE BB+ (FD); Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	100.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (28-Jan-21)	1)CARE BBB; Stable (01-Nov-19)	1)CARE BBB; Stable (07-Feb-19) 2)CARE BBB+; Stable (06-Apr-18)
2.	Fund-based - LT-Cash Credit	LT	50.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (28-Jan-21)	1)CARE BBB; Stable (01-Nov-19)	1)CARE BBB; Stable (07-Feb-19) 2)CARE BBB+; Stable (06-Apr-18)
3.	Non-fund-based - ST-BG/LC	-	-	-	-	-	-	1)CARE A2 (06-Apr-18)
4.	Fixed Deposit	LT	100.00	CARE BB+ (FD); Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB (FD); Stable; ISSUER NOT COOPERATING* (28-Jan-21)	1)CARE BBB (FD); Stable (01-Nov-19)	1)CARE BBB (FD); Stable (07-Feb-19)
5.	Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	-	-	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)
6.	Fund-based - ST-EPC/PSC	ST	75.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3+; ISSUER NOT COOPERATING* (28-Jan-21)	1)CARE A3+ (01-Nov-19)	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)
7.	Non-fund-based - LT/ST-Letter of credit	LT/ST	400.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING* (28-Jan-21)	1)CARE BBB; Stable / CARE A3+ (01-Nov-19)	1)CARE BBB; Stable / CARE A3+ (07-Feb-19) 2)CARE BBB+; Stable / CARE A2 (06-Apr-18)
8.	Non-fund-based - ST-Forward Contract	-	-	-	-	-	-	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)
9.	Fund-based - LT/ ST-EPC/PSC	-	-	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Apr-18)
10.	Fund-based - LT-Working Capital Demand loan	LT	50.00	CARE BB+; Stable; ISSUER	-	1)CARE BBB; Stable; ISSUER	1)CARE BBB; Stable	1)CARE A3+ (07-Feb-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
				NOT COOPERATING*		NOT COOPERATING* (28-Jan-21)	(01-Nov-19)	

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Working Capital Demand loan	Simple
5.	Fund-based - ST-EPC/PSC	Simple
6.	Non-fund-based - LT/ ST-Letter of credit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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