

## 3F Industries Limited

February 07, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	205.83 (reduced from 324.00)	<b>CARE BBB; Stable</b> <b>(Triple B; Outlook: Stable)</b>	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long/Short-term Bank Facilities	730.00 (reduced from 670.80)	<b>CARE BBB; Stable</b> <b>(Triple B; Outlook: Stable)/</b> <b>CARE A3+</b> <b>(A Three Plus)</b>	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/A Two)
Short term Bank Facilities	156.57 (enhanced from 107.60)	<b>CARE A3+</b> <b>(A Three Plus)</b>	Revised from CARE A2 (A Two)
<b>Total Facilities</b>	<b>1092.40</b> <b>(Rs. One Thousand and</b> <b>Ninety Two crore and Forty</b> <b>lakh only)</b>		
Fixed Deposits	88.00 (enhanced from 78.00) (Rs. Eighty Eight crore only)	<b>CARE BBB [FD]; Stable</b> <b>(Triple B [Fixed Deposit];</b> <b>Outlook: Stable)</b>	Revised from CARE BBB+ [FD]; Stable (Triple B Plus [Fixed Deposit]; Outlook: Stable)

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of 3F Industries Limited (3FI) takes into account decline in the total operating income and profitability levels of the 3F group during FY18 (refers to period from April 01 to March 31) along with stressed leverage and coverage indicators. Nevertheless, the ratings continue to derive strength from experienced and resourceful promoters, integrated business model with diverse product basket, uninterrupted power supply from the captive power plant, satisfactory operational performance and comfortable liquidity profile. The ratings, are however, constrained by risk associated with volatility in raw material prices, foreign currency fluctuation risk and regulated nature of industry with intense competition.

The ability of the company to continue to expand the scale of operation and diversify its product basket while strengthening its profitability and capital structure are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced and resourceful promoters:** 3FI is the flagship company of the 3F group. All the directors of the company are instrumental in development of 3F group and have more than four decades of experience in trading, extraction and refining of CPO. The day-to-day operations of the company is taken care by Mr. S. B. Goenka. The company has been continuously receiving support from promoter directors in terms of management expertise. Also, the promoters have infused funds as and when required to support the business operations.

**Integrated business model with a diverse product basket:** The 3F group has presence across the value chain from sourcing of raw materials, extraction and refining of crude oils to manufacturing of finished products like Vanaspati, Speciality fats (for confectionaries and bakeries) and by-products like fatty acids, stearines, oleins, glycerine etc. The group has forayed into manufacturing of oleo chemicals which is forward integration for existing refinery plant at Krishnapatnam, Andhra Pradesh.

**Uninterrupted power supply from captive power plant:** 3FI at standalone level, is operating 6MW captive biomass power plant at its refining plant complex at Tadepalligudem, Andhra Pradesh. The energy requirement of the factory is met from this captive power plant thus enabling assured and uninterrupted supply of electricity throughout the year along with added cost advantage.

**Satisfactory operational performance:** 3FI (standalone) reported satisfactory operational performance with continued growth in sales volume of major products and stable capacity utilization in FY18. During FY18, the combined capacity

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

utilization of oil refining in Krishnapatnam and Tadepalligudem stood at ~94% (same during FY17). Further, out of the product basket of about 7-8 products, refined oil contributed about 66% of the total sales in FY18, followed by Vanaspati (15%) and Fatty acids/oleo chemicals (16%). Although, the prices of refined oils and Vanaspati have declined during FY18, the total sales volume of both the products increased by ~18% and consequently, total revenue from both the products has increased by ~17% during FY18 vis-à-vis FY17.

**Comfortable liquidity profile:** The company operates in working capital intensive industry where in it has to import about 90% of its raw material requirements from Malaysia and Indonesia and make the payments to suppliers immediately/with very minimal credit period. However, the working capital cycle of the company has been at satisfactory level at 75 days during FY18. The average utilization of fund based limits for the past 12 months ending December 31, 2018 stood comfortable at 23.64%.

#### Key rating Weaknesses

**Weakening of financial performance in FY18:** The total operating income of 3F group (at consolidated level) declined by 3.51% from Rs.2,293.95 crore in FY17 to Rs.2,213.43 crore in FY18. Further, during FY18, the PBILDT and PAT of the group (at consolidated level) declined by 18.90% and 54.70% to Rs.93.46 crore and Rs.8.58 crore respectively from Rs.115.24 crore and Rs.18.93 crore during FY17. Deterioration in the financial performance of the group during FY18 is primarily on account of decline in revenue and losses incurred by some of the subsidiaries in 3F group. During FY18, few of the subsidiaries in Africa incurred losses on account of volatility in commodity prices and high foreign currency fluctuations. Accordingly, the PBILDT and PAT margins of the group have declined by ~80bps and ~44bps respectively during FY18.

**Leveraged capital structure:** Overall gearing of the group, although stressed, has improved marginally to 2.90x as on March 31, 2018 as against 3.14x as on March 31, 2017 on account of plough back of profits to reserves and decrease in adjusted debt. The total debt to GCA of the company deteriorated from 16.13x during FY17 to 19.82x during FY18 on account of decline in GCA from Rs.50.37 crore during FY17 to Rs.38.84 crore during FY18 (y-o-y decline of 22.89%). The other coverage indicator, PBILDT interest coverage ratio has declined marginally from 2.92x during FY17 to 1.92x during FY18 on account of decline in PBILDT levels and increase in the finance expenses due to higher reliance on working capital bank borrowings.

**High exposure to group companies:** The aggregate exposure of 3FI (standalone) in its group companies stood at around Rs.93 crore as on March 31, 2018 (as against ~Rs.66 crore as on March 31, 2017). The exposure accounted for 37% of tangible net worth as on the same date. Few of the group companies have incurred losses during FY18 resulting in deterioration of financial profile at consolidated level. The increasing exposure of 3FI towards its subsidiaries may impact the financial profile of 3F group and remains critical from rating perspective.

**Risk associated with volatility in raw material prices:** The main input for 3FI is CPO which accounted for about 84% of raw material consumption during FY18. Majority of the requirement is imported from two main CPO exporting countries i.e. Malaysia and Indonesia. The CPO prices are highly volatile. While global CPO prices have been declining since beginning of the 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.

**Foreign exchange volatility 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. During FY18, the imported input costs (Consol.) were ~62% of the total of the raw material consumption cost (~64% during FY17); while exports were around 12% of the total gross sales. As company is primarily import oriented, depreciation of INR against USD could negatively impact the margins of the company to large extent. During FY18, the group reported net forex gain of Rs.4.99 crore.

**Regulated nature of industry with intense competition:** The edible oil industry in India is characterized by intense competition and fragmentation, with the presence of a 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, high competition and fragmentation, profit margins in the edible oil business tend to be thin.

**Analytical Approach:** Combined. The ratings of 3FI factor in the combined business and financial risk profiles of 3F Industries Limited (3FI) and its subsidiaries, together referred to as 3F group, as the entities collectively have management, business & financial linkages.

*3FI contributed ~81% of the total consolidated revenue for FY18 (~70% during FY17); while the balance contribution is from the subsidiaries*

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)  
[Criteria for Short Term Instruments](#)  
[CARE's Policy on Default Recognition](#)  
[Rating Methodology: Factoring Linkages in Ratings](#)  
[Financial Ratios - Non-Financial Sector](#)

### About 3F Group

The 3F group has presence across the value chain from sourcing of raw materials, extraction and refining of crude oils to manufacturing of finished products like Vanaspati, Specialty fats (for confectionaries and bakeries) and by-products like fatty acids, stearines, oleins, glycerine etc. 3FI is the flagship company of 3F group, which has interests in power generation, textiles, and granite quarrying, besides manufacturing of edible oils. 3F Oil Palm Agrotech Pvt Ltd (3FPOAL), 3F Ghana Limited (3FGL) and 3F Ghana Commodities Ltd are the wholly own subsidiaries of 3FI are also engaged into similar line of business. 3FPOAL was incorporated by hiving off the palm oil division of 3FI in July 2010. 3FI has also set up a 10MW biomass power plant under its subsidiary (with stake of 50.15%), Viaton Energy Private Limited which is joint venture of 3FI and Creative Group of Mumbai. VEPL achieved COD of first phase biomass power plant (10MW) on January 17, 2014.

### About the 3F Industries

3F Industries Limited (3FI) was promoted in 1959 by Mr. B K Goenka. His son, Mr. S B Goenka, is the current Chairman and Managing Director of the company. 3FI is engaged in manufacturing of edible oils, specialty fats for the bakery and confectionery segment, fatty acids and oleo chemicals (used in soap manufacturing) at its production facility in Tadepalligudam and Krishnapatnam in Andhra Pradesh. The company has a refining capacity aggregating to 2,77,500 MTPA. 3FI has also set up processing units for by-products like fatty acids, stearines, glycerin, pitch oil, wax and oleo chemicals plant, enabling the company to derive incremental benefits from processed by-product sales. The company is one of the leading manufacturers of specialty fats in India. 3FI is also operating a captive 6 MW capacity biomass power plant at Tadepalligudam, Andhra Pradesh. It is also operating wind mills of 3.30MW in Tamil Nadu.

Brief Financials (Rs. crore) – Consolidated	FY17 (A)	FY18 (A)
Total operating income	2,293.95	2,213.43
PBILDT	115.24	93.46
PAT	18.93	8.58
Overall gearing (times)	3.14	2.90
Interest coverage (times)	2.92	1.92

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Analyst Contact:

Name: Nivedita Ghayal

Tel: 040 40102030

Cell: +91 9908090944

Email: [nivedita.ghayal@careratings.com](mailto:nivedita.ghayal@careratings.com)

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### 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
Non-fund-based - ST-Credit Exposure Limit	-	-	-	1.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	122.00	CARE A3+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	730.00	CARE BBB; Stable/ CARE A3+
Non-fund-based - ST-Forward Contract	-	-	-	2.46	CARE A3+
Fund-based - ST-Working Capital Demand loan	-	-	-	31.11	CARE A3+
Fund-based - LT-Term Loan	-	-	February 2022	140.83	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	65.00	CARE BBB; Stable
Fixed Deposit	-	-	-	88.00	CARE BBB (FD); Stable

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	140.83	CARE BBB; Stable	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (27-Dec-17)	1)CARE BBB+ (15-Nov-16)	1)CARE BBB+ (20-Nov-15)
2.	Fund-based - LT-Cash Credit	LT	65.00	CARE BBB; Stable	1)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (27-Dec-17)	1)CARE BBB+ (15-Nov-16)	1)CARE BBB+ (20-Nov-15)
3.	Non-fund-based - ST-BG/LC	-	-	-	1)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
4.	Fixed Deposit	LT	88.00	CARE BBB (FD); Stable	-	1)CARE BBB+ (FD); Stable	1)CARE BBB+ (FD)	1)CARE BBB+ (FD)

						(27-Dec-17)	(15-Nov-16)	(20-Nov-15)
5.	Fund-based - LT- External Commercial Borrowings	LT	-	-	-	-	1)Withdrawn (04-Nov-16)	1)CARE BBB+ (20-Nov-15)
6.	Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
7.	Fund-based - ST- Standby Line of Credit	ST	-	-	-	1)Withdrawn (27-Dec-17)	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
8.	Non-fund-based - ST- Credit Exposure Limit	ST	1.00	CARE A3+	1)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
9.	Fund-based - ST- EPC/PSC	ST	122.00	CARE A3+	1)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
10.	Fund-based/Non-fund-based-Short Term	-	-	-	-	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
11.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	730.00	CARE BBB; Stable/ CARE A3+	1)CARE BBB+; Stable / CARE A2 (06-Apr-18)	1)CARE BBB+; Stable / CARE A2 (27-Dec-17)	1)CARE BBB+ / CARE A2 (15-Nov-16)	1)CARE BBB+ / CARE A2 (20-Nov-15)
12.	Non-fund-based - ST- Forward Contract	ST	2.46	CARE A3+	1)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)
13.	Fund-based - LT/ ST- EPC/PSC	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Apr-18)	-	-	-
14.	Fund-based - ST- Working Capital Demand loan	ST	31.11	CARE A3+	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691