

3F Industries Limited
November 01, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	327.12	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long/Short-term Bank Facilities	560.00	CARE BBB; Stable (Triple B; Outlook: Stable) / CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	887.12 (Rupees Eighty hundred and eighty seven crore and twelve lakh only)		
Fixed Deposits	100.00 (enhanced from 88.00) (Rupees One Hundred crore only)	CARE BBB [FD]; Stable (Triple B [Fixed Deposit]; Outlook: Stable)	Reaffirmed

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of 3F Industries Limited (3FI) continues to derive strength from experienced promoters with global presence of the 3F group, integrated business model with a diverse product basket, forward integrated plants deriving benefits from sale of by-products. The ratings also factor in satisfactory operational and improved financial performance during FY19, successful completion of envisaged capex and expected benefits to be derived thereof.

However, the above rating strengths are partially offset by its leveraged capital structure along with moderate liquidity profile and extensively utilized bank limits, risk associated with volatility in raw material prices, foreign currency fluctuation risk and regulated nature of industry with intense competition.

Positive Factors:

- Improvement in the capital structure with overall gearing falling below 1.50x on sustained basis.
- Improvement in TD/GCA below 8x on sustained basis

Negative Factor:

- Weakening in overall gearing beyond 3.50x during any of the projected years
- Deterioration in TD/GCA beyond 15x during any of the projected years

Detailed description of the key rating drivers**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

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

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 as on March 31, 2019

The capital structure of the group on a consolidated level continues to remain leveraged with overall gearing of 3.28x as on March 31, 2019 (3.83x as on March 31, 2018) primarily because of huge working capital requirement. The debt coverage indicators continue to remain weak with total debt to GCA of 14.18x during FY19 (19.82x during FY18). The PBILDT interest coverage ratio, although low, remained stable at 1.86x in FY19 against 1.92x during FY18 on account of higher finance cost due to forward cover charges booked under interest expenses.

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: Moderate

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 past 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% of the total consolidated revenue during FY18-FY19, while the balance contribution is from its subsidiaries.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

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

[Financial ratios – 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)	FY18 (Audited)	FY19 (Audited)
Total operating income	2213.43	2676.88
PBILDT	93.46	167.12
PAT	8.58	31.72
Overall gearing (times)	3.83	3.28
Interest coverage (times)	1.92	1.86

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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

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	-	-	-	0.00	CARE A3+
Fund-based - ST-EPC/PSC	-	-	-	75.00	CARE A3+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	560.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-Forward Contract	-	-	-	0.00	CARE A3+
Fund-based - LT-Working Capital Demand loan	-	-	March 2022	72.96	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	March 2025	104.16	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE BBB; Stable
Fixed Deposit	-	-	-	100.00	CARE BBB (FD); Stable

Annexure-2: Rating History of last three years

Sr.	Name of the	Current Ratings	Rating history
-----	-------------	-----------------	----------------

No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	104.16	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-19) 2)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (27-Dec-17)	1)CARE BBB+ (15-Nov-16)
2.	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-19) 2)CARE BBB+; Stable (06-Apr-18)	1)CARE BBB+; Stable (27-Dec-17)	1)CARE BBB+ (15-Nov-16)
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)
4.	Fixed Deposit	LT	100.00	CARE BBB (FD); Stable	-	1)CARE BBB (FD); Stable (07-Feb-19)	1)CARE BBB+ (FD); Stable (27-Dec-17)	1)CARE BBB+ (FD) (15-Nov-16)
5.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (04-Nov-16)
6.	Non-fund-based - LT/ST-Bank Guarantees	-	-	-	-	-	-	1)CARE A2 (15-Nov-16)
7.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (27-Dec-17)	1)CARE A2 (15-Nov-16)
8.	Non-fund-based - ST-Credit Exposure Limit	ST	0.00	CARE A3+	-	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)
9.	Fund-based - ST-EPC/PSC	ST	75.00	CARE A3+	-	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)
10.	Fund-based/Non-fund-based-Short Term	-	-	-	-	-	-	1)CARE A2 (15-Nov-16)
11.	Non-fund-based - LT/ST-Letter of credit	LT/ST	560.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (07-Feb-19) 2)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)
12.	Non-fund-based - ST-Forward Contract	ST	0.00	CARE A3+	-	1)CARE A3+ (07-Feb-19) 2)CARE A2 (06-Apr-18)	1)CARE A2 (27-Dec-17)	1)CARE A2 (15-Nov-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
13.	Fund-based - LT/ ST-EPC/PSC	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Apr-18)	-	-
14.	Fund-based - LT-Working Capital Demand loan	LT	72.96	CARE BBB; Stable	-	1)CARE A3+ (07-Feb-19)	-	-

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.

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – Mrs. Nivedita Ghayal

Group Head Contact no- +91-9908090944

Group Head Email ID- nivedita.ghayal@careratings.com

Business Development Contact

Name: Mr. Ramesh Bob

Contact no.: + 91 90520 00521

Email ID: ramesh.bob@careratings.com

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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**