

3F Industries Limited

December 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	324.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Surveillance
Short term Bank Facilities	602.40 (reduced from 702.40)	CARE A2 (A Two)	Surveillance
Long/Short-term Bank Facilities	110.00 (enhanced from 10.00)	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable)/A Two	Surveillance/Enhancement
Total Facilities	1036.40 (Rs. One Thousand and Thirty Six crore and Forty lakh only)		
Fixed Deposits	78.00 (enhanced from 72.00) (Rs. Seventy Eight crore only)	CARE BBB+[FD]; Stable (Triple B (Fixed Deposit); Outlook: Stable)	Surveillance/Enhancement

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of 3F Industries Limited (3FI) continue to derive strength from the experienced management, long track record of operations, integrated business model with diverse product basket, assured power supply from captive plant, satisfactory operational performance, growing scale of operation over the years and satisfactory working capital cycle. The ratings, however, are constrained by the leveraged capital structure, susceptibility of profitability to volatility in the raw material prices and foreign exchange fluctuation, high level of competition from both the domestic and international players and regulated nature of industry. The ratings also factor in weakening of financial performance in FY17 with decline in profit level and margins during the year.

The ability of the company to continue to expand the scale of operation while improving the share of value added products and improve the 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 in the past.

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

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. The contribution of fatty acids/oleo chemical segment is close to 15% in FY17

Uninterrupted power supply from captive power plant: 3FI at standalone is operating 6MW captive biomass power plant at its refining plant complex at Tadepalligudem, Andhra Pradesh. The 2MW energy requirement of the factory is met from the captive power plant thus enabling assured supply of electricity throughout the year

Satisfactory operational performance: The Company reported satisfactory operational performance with continued growth in sales volume of major products in FY17. In line with the increased input prices, the company also increased sale prices of its major products as well as by-products.

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. The liquidity position has also remained comfortable with adequate cushion in utilization of working capital limits and free cash and bank balance/liquid funds available with the group.

Key rating Weaknesses

Risk associated with volatility in raw material prices: The main input for 3FI is CPO which accounted for about 72% of raw material consumption during FY17. Majority of the requirement is imported from two main CPO exporting countries i.e. Malaysia and Indonesia. The CPO prices are highly volatile. The CPO prices after witnessing decline in FY16; increased significantly in FY17 which impacted the profit margin of the 3FI in FY17. The prices came down in H1FY18 which gave some respite to the players in the industry.

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 huge fluctuation in raw material prices to a large extent. During FY17, the imported input costs were about 78% of the total of the raw material consumption cost; while exports were around 14% i.e., Rs.234.87 crore in FY17 (18% i.e. Rs.284.29 crore in FY16) 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.

Weakening of financial performance in FY17: While the total operating income of 3F group (at consolidated level) registered a y-o-y growth of about 13.37% in FY17 over FY16, the PBILDT level and margin of the group has declined by 16.49% and ~180bps respectively on account of increased CPO prices. Reduced PBILDT along with an exceptional expense of Rs.22.54 crore during FY17 has resulted in decline of PAT margin from 2.24% in FY16 to 0.58% in FY17.

Leveraged capital structure: Overall gearing of the group, although stressed, has remained stable at 3.33x as on March 31, 2017 against 3.30x as on March 31, 2016 on account of additional loans availed to fund purchase of machinery for shea nuts extraction plant in Tadepalligudem and fat splitting plant in Krishnapatnam, Andhra Pradesh. Also, during FY17, the company has replaced many of their outdated machines in Tadepalligudem.

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 (SSI reservation for traditional oilseeds and sales tax incentives by various state governments). As a result of this, high competition and fragmentation, profit margins in the edible oil business tend to be thin.

Analytical Approach: The rating of 3FI factors in the consolidated financials of 3F Industries Limited (3FI) and its subsidiaries together referred to as 3F group, as the entities collectively have management, business & financial linkages. 3FI contributes ~70% of the total consolidated revenue for 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 the Company

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 Tadepalligudem and Krishnapatnam in Andhra Pradesh. 3FI is the flagship company of 3F group, which has interests in power generation, textiles, and granite quarrying, besides manufacturing of edible oils. The company has a refining capacity aggregating to 2,64,000 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 Tadepalligudem, Andhra Pradesh. It is also operating wind mills of 3.30MW in Tamil Nadu.

3F Oil Palm Agrotech Pvt Ltd, 3F Ghana Limited (3FGL) and 3F Ghana Commodities Ltd which 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.

Brief Financials (Rs. crore) - Consolidated	FY16 (A)	FY17 (A)
Total operating income	2023.40	2293.95
PBILD	138.00	115.24
PAT	45.36	13.33
Overall gearing (times)	1.91	3.33
Interest coverage (times)	3.21	2.92

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Ms Puja Jalan

Tel: 040 40102030

Cell: +91 9160001511

Email: puja.jalan@careratings.com

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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	-	-	March 2022	54.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	270.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	560.80	CARE A2
Fund-based - ST-Standby Line of Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Credit Exposure Limit	-	-	-	5.60	CARE A2
Non-fund-based - ST-EPC/PCFC	-	-	-	20.00	CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	110.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	16.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	54.00	CARE BBB+; Stable	-	1)CARE BBB+ (15-Nov-16)	1)CARE BBB+ (20-Nov-15)	1)CARE BBB+ (06-Jan-15)
2.	Fund-based - LT-Cash Credit	LT	270.00	CARE BBB+; Stable	-	1)CARE BBB+ (15-Nov-16)	1)CARE BBB+ (20-Nov-15)	1)CARE BBB+ (06-Jan-15)
3.	Non-fund-based - ST-BG/LC	ST	560.80	CARE A2	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	-	1)Withdrawn (06-Jan-15)
5.	Fixed Deposit	LT	72.00	CARE BBB+ (FD)	-	1)CARE BBB+ (FD) (15-Nov-16)	1)CARE BBB+ (FD) (20-Nov-15)	1)CARE BBB+ (FD) (17-Jun-14)
6.	Fund-based - LT-External Commercial	LT	-	-	-	1)Withdrawn (04-Nov-16)	1)CARE BBB+	1)CARE BBB+ (06-Jan-15)

	Borrowings						(20-Nov-15)	
7.	Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
8.	Fund-based - ST- Standby Line of Credit	ST	-	-	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
9.	Non-fund-based - ST-Credit Exposure Limit	ST	5.60	CARE A2	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
10.	Non-fund-based - ST-EPC/PCFC	ST	20.00	CARE A2	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
11.	Fund-based/Non-fund-based-Short Term	-	-	-	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	1)CARE A2 (06-Jan-15)
12.	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (15-Nov-16)	1)CARE BBB+ / CARE A2 (20-Nov-15)	1)CARE BBB+ / CARE A2 (06-Jan-15)
13.	Non-fund-based - ST-Forward Contract	ST	16.00	CARE A2	-	1)CARE A2 (15-Nov-16)	1)CARE A2 (20-Nov-15)	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: 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

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

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

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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691

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