Jocil Limited

November 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	40.00	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short term Bank Facilities	18.00	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Facilities	58.00 (Rs. Fifty Eight crore only)		
Fixed Deposit	8.00 (Rs. Eight crore only) (Reduced from 20.00)	CARE A2+ (FD) [A Two Plus (Fixed Deposit)]	Revised from CARE A2 (FD) [A Two (Fixed Deposit)]

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposits of Jocil Limited derive comfort from improved operational and financial performance of the company in FY20 (FY refers to the time period between April 01- March 31) as well as in H1FY21 along with strong liquidity profile. The ratings continue to remain underpinned by experienced promoters with long established track record of operations, healthy capital structure, comfortable debt coverage indicators, reputed clientele and benefits derived from captive power plants. The rating strengths are however partially offset by, low profitability margins albeit improved in FY20, elongated operating cycle, client concentration risk, volatile raw material prices and fragmented industry with intense competition.

Outlook: Positive

Positive outlook on the rating reflects improvement in the overall financial performance of Jocil during FY20 and H1FY21. With change in the product mix and favorable industry growth prospects, CARE expects profitability margins of the company to strengthen further, in the coming quarters.

Rating Sensitivities

Positive Factors

- ✓ Improvement in scale of operation with TOI increasing beyond Rs 600 crore while maintaining a steady PBILDT margin of 8% or above on a sustained basis.
- ✓ Operating cycle improving to less than two months, going forward on a sustained basis.

Negative Factors

- ✗ Any unprecedented increase in the debt levels resulting in overall gearing deteriorating over 1x, in future.
- ✗ Elongation in the operating cycle more than 120 days, going forward.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational and financial performance in FY20 and H1FY21:

The financial performance of the company witnessed significant improvement in FY20 with a threefold increase in operating profits and four times increase in the PAT levels over previous year. The total operating income (TOI) also remained steady by registering a y-o-y growth of 12% in FY20 driven by healthy demand for soap noodles and improved realisations. Volume of soap products sold improved considerably from 20579 MT in FY19 to 35224 MT in FY20 with a growth rate of 71.17% at the back of increased orders from existing customers. During H1FY21, Jocil booked a TOI of Rs 296.91 crore and PBILDT of Rs 14.91 crore.

Experienced promoter group and established track record:

The company has more than four decades of experience in manufacturing stearic acid flakes, fatty acids, toilet soap, soap noodles and refined glycerine. Jocil belongs to a strong promoter group. Jocil is a subsidiary of The Andhra Sugars Limited (TASL) (holding 55.02% stake) which has an established business operations based in South India. Managing Director of Jocil, Mr. J. Murali Mohan has more than four decades of experience in the industry, the other directors of the company are also experienced and well qualified. The day to day operations of Jocil are supported by an experienced and professional team down the line.

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

Healthy leverage and coverage metrics:
Capital structure of Jocil continues to remain strong with an overall gearing of 0.05x as on March 31, 2020 (PY: 0.05x) driven by healthy net worth and absence of any major bank debt. The debt coverage indicators marked by Interest coverage ratio increased from 5.95x in FY19 to 23.96x in FY20 and total debt/GCA improved from 1.06x as on March 31, 2019 to 0.45x as on March 31, 2020 at the back of improved GCA.

Better future prospects backed by reputed client base:
With more than four decades of existence in the industry, Jocil has established itself as one the major manufacturers of fatty acids and soap products. The company has been doing business with reputed FMCG clients and has been successfully bagging high volume orders every year. Few of the major clients of the company include, Hindustan Unilever Limited, ITC Limited, MRF Limited and Gold Stab Organics Private Limited, amongst others.

Benefits from captive power plant:
The company has a 6 MW biomass cogeneration captive power plant located within the factory premises at Dokiparru Village, Guntur to cater to its power requirements. Further, Jocil has four Wind Energy Generators (WEG), aggregating to 6.30 MW, located in the state of Tamil Nadu. Jocil has an existing long term power purchase agreement (valid through 2026) with TANGEDCO (Tamil Nadu Generation and Distribution Corporation Limited) at an average tariff of Rs.2.85/unit. The revenue from the sale of power amounted to Rs 11.60 crore in FY20 which provided an additional income to Jocil.

Key Rating Weakness
Moderate profitability margins:
The profitability margin of the company although improved during FY20 continues to remain low with a PBILDT margin of around 5% and a PAT margin of 2%. Because of low value addition, intense competition and fluctuating raw material prices, the profitability margins of the company come used pressure. Also, Jocil being a moderate-sized company supplying to major FMCG companies in India, has limited bargaining power. Nevertheless, the company has been strategically changing its product mix by increasing sales of soap noodle which is a better margin product as compared to fatty acid.

Volatile raw material prices:
Palm Stearin and Palm Fatty Acid Distillate (PFAD) are the major raw materials for manufacture of fatty acids and soaps. The raw materials used by Jocil are imported from Malaysia and Indonesia. Raw material prices usually fluctuate depending on the demand supply scenario and changes in the policy framework/custom structure by the exporting nations.

Elongated Operating cycle:
The working capital cycle of the company continues to remain elongated which further stretched to 93 days in FY20 from 89 days in FY19. There was a marginal increase in the inventory and receivable period. Company maintains sufficient stock of raw material as the prices and availability has a tendency to fluctuate. Collection period increased from 48 days as on March 31, 2019 to 56 days as on March 31, 2020. As per industry norms, the company has to provide around a month of credit period to all its clients while it has to make immediate payments to its creditors. Moreover, receivables from *TANGEDCO* also takes considerable amount of time to recover. This results in stretched operating cycle. Nevertheless, the company's reliance on working capital bank limits has been minimal and short term working capital requirements are efficiently managed by its positive operating cash flows.

Client concentration risk
Jocil is exposed to client concentration risk as the top ten customers contributed more than 95% of the TOI in FY20 (86% in FY19). Moreover, revenue from one single client was close to 55% of TOI in FY20. Although the clientele of Jocil comprises all marquee customers any change in the procurement policy or strategy of any of these top clients may impact Jocil's operational performance. Nevertheless, Jocil has been trying to expand its customer base and has recently added several more names to its clientele.

Industry Outlook and impact of COVID:
Jocil is engaged in manufacturing of Stearic Acid, Fatty Acids, Refined Glycerin, Soap Noodles, and Toilet Soap etc. Non edible vegetable oils and fatty acid distillates, both indigenous and imported, are used as raw materials for the manufacture of the finished products. India is short of both edible and non-edible vegetable oils. However, in India, refineries with huge capacities have been setup for processing Crude Vegetable Oils like Palm Oil mainly imported from Malaysia and Indonesia. The Malaysian and Indonesian Governments impose export duty varying from time to time on crude oil to encourage value addition within their country prior to exports. This turns out as additional cost to consumers in India.
The products of Jocil are covered under "essential commodities list for containment of COVID-19" and were under general exempted category list from lockdown. Operations were being carried out normally to meet the public demand for soaps during lockdown situation. The demand for glycerin, one of the by-product generated from production of Fatty Acids, improved

recently due to its usage in sanitizers and soaps. For containment of COVID-19, sanitizers and soaps are frequently used by consumers. Hence, demand for soap noodles and soap is also be expected to increase during the forthcoming period.

Liquidity: **Strong**
The liquidity profile of the company is strong marked by healthy gross cash accruals of Rs 18.50 crore vis-à-vis no repayment obligation. The average utilization of working capital limits for past twelve months ended August, 2020 also remained low at 8.29% thereby providing the company with sufficient headroom. There are no debt funded capex envisaged in near to medium term. Further, the company had an unencumbered cash and bank balance of around Rs 21 crore as on March 31, 2020. The company has not availed moratorium for any of its bank facilities.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Financial ratios –Non-Financial Sector
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology -Manufacturing Companies

About the Company
Jocil Limited (Jocil) was incorporated in February 1978 as Andhra Pradesh Oil and Chemicals Limited which, later in 1992 was renamed as Jocil Limited. Jocil is primarily engaged in the manufacturing of fatty acids, stearic acid, refined glycerin, soap noodles, toilet soap and its by-products and industrial oxygen at its manufacturing facility in Doki parru village, Guntur district, Andhra Pradesh. The company also has a 6 MW biomass cogeneration captive power plant at the same premises. Further, Jocil has four Wind Energy Generators (WEG) in the state of Tamil Nadu, the power generated is sold to Tamil Nadu Generation & Distribution Corporation Ltd (TANGEDCO). Jocil Limited is listed on National Stock Exchange (NSE), India.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	404.11	451.80
PBILDT	8.38	24.54
PAT	3.17	12.49
Overall gearing (times)	0.05	0.05
Interest coverage (times)	5.95	23.96

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Cash Credit	-	-	-	40.00	CARE A-; Positive
Non-fund-based - ST-BG/LC	-	-	-	18.00	CARE A2+
Fixed Deposit	-	-	-	8.00	CARE A2+ (FD)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Positive	-	1)CARE A-; Stable (26-Nov-19)	1)CARE A-; Negative (28-Dec-18)	1)CARE A-; Negative (19-Feb-18) 2)CARE A; Stable (29-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	18.00	CARE A2+	-	1)CARE A2 (26-Nov-19)	1)CARE A2 (28-Dec-18)	1)CARE A2 (19-Feb-18) 2)CARE A2+ (29-Sep-17)
3.	Fixed Deposit	ST	8.00	CARE A2+ (FD)	-	1)CARE A2 (FD) (26-Nov-19)	1)CARE A2 (FD) (28-Dec-18)	1)CARE A2 (FD) (19-Feb-18) 2)CARE A2+ (FD) (29-Sep-17)

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.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. 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 –Nivedita Ghayal
Group Head Contact no. : +91-40-40102030
Group Head Email ID –nivedita.ghayal@careratings.com

Business Development Contact
Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

About CARE Ratings:

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