Jocil Limited

November 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term bank facilities	40.00	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Revised from A-; Negative [Single A Minus; Outlook: Negative]
Short term bank facilities	18.00	**CARE A2 (A Two)**	Reaffirmed
Total	**58.00 (Rupees Fifty Eight crore only)**		
Fixed Deposit	**20.00 (Rupee Twenty crore only)**	**CARE A2 (FD) [A Two (Fixed Deposit)]**	Reaffirmed

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposits of Jocil Limited (Jocil) continue to draw strength from the long and established track record of operations, experienced management, reputed client base, integrated manufacturing facility with captive power generation, comfortable capital structure marked by overall gearing remaining below unity and satisfactory debt coverage indicators with absence of term debt along with healthy liquidity position. The ratings also factor in improvement in operating profitability during H1FY20 on account of change in the product mix by the company. The rating strengths are however partially offset by, thin profit margins given stiff competition in the industry and also profitability being susceptible to volatility in raw material prices, client concentration risk along with elongated operating cycle.

Key Rating Sensitivities

Positive Sensitivities

- Maintaining PBILDT margin over 5% on sustainable basis.

Negative Sensitivities

- Overall gearing deteriorating beyond 1.00x for any of the projected years.
- Deterioration in TD/GCA beyond 2.00x for any of the projected years.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoter group with established track record: The company belongs to a strong promoter group and Managing Director (MD); Mr. J. Murali Mohan, has over four decades of experience in the industry. Jocil is a subsidiary of TASL (holding 55.02% stake) which has established business operations based in South India. The company has been operational for more than three decades and has demonstrated a good track record of operation over the years.

Reputed client base with diverse product segment: The product segment of Jocil includes Oleo chemicals (Fatty acid, Stearic Acid, Glycerin) and Soap Products (Soap Noodles and Toilet Soaps). Majority of fatty acid produced in the industry is consumed as raw material in the soap industry for making toilet soap. Jocil has long-term, healthy business relationships with the reputed soap brand owners for manufacturing of translucent noodles and premium soap noodles. Jocil sells fatty acid produced and also uses it for captive consumption for its soap vertical.

Captive power generation: Jocil has a 6 MW biomass cogeneration captive power plant located within the factory premises at Dokiparru Village, Guntur to cater to its power requirements. The average consumption of the company is around only 3.5-4.0 MW and the balance is sold to Southern Power Distribution Co. of AP Ltd. (APSPDCL). Jocil also has four Wind Energy Generators (WEG), aggregating to 6.3MW capacity, located in the state of Tamil Nadu and has tied up Long-Term PPA with TANGEDCO. Being a captive power generation, the company is able to run the processing plants and meet its production targets effectively without getting affected by power cuts / interruptions during power shortage. Also, the stable revenues generated through the sale of power provides an added cushion from fluctuating profitability.

Improved capacity utilizations during FY19 and H1FY20: Operational performance of the company after subdued performance for the past two years FY17 and FY18 has witnessed a recovery during FY19 and further improved in H1FY20. The capacity utilization levels for its primary segments, fatty acids and soap products have improved considerably from 64.98% and 17.55% respectively during FY18 to 86.84% and 25.41% respectively during FY19 and have further improved to 89.48% and 54.37% respectively for H1FY20.

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

Stable financial performance in FY19 with considerable improvement in H1FY20: The total operating income of the company increased by around 16.68% y-o-y in FY19 to Rs.404.36 crore backed by increased sales volume. However, the increased sales volume could not entirely translated into sales value owing to the lower sales realization. Given the decreasing cost of raw materials, the company lowered its prices amid high competition, resultantly, the PBILDT margin of the company decline to 2.07% during FY19 (FY18:3.71%). Nevertheless, In H2FY20, despite gross revenue remaining stable at Rs.200.03 crore vis-à-vis Rs.200.23 crore during H1FY19; on back of higher contribution in revenue from the soap product segment (which is a higher margin product), the operating profitability of the company improved considerably from 2.08% during H1FY19 to 5.70% during H1FY20.

Strong capital structure and comfortable debt coverage indicators: Jocil has a favourable capital structure with relatively low reliance on external borrowings; accordingly, overall gearing of the company continues to remain strong at 0.05x as on March 31, 2019 and 0.07x as on September 30, 2019. Also, debt coverage metrics marked by interest coverage and total debt to gross cash accruals stood comfortable at 25.33x and 0.67x respectively during H1FY20 compared to 5.95x and 1.06x respectively during FY19.

Stable industry outlook: Stable: The demand in the consumer sector in soap and detergent industry is driven by population growth, particularly among households with children whereas demand in the commercial sector is driven by the economic growth of the country. The soap manufacturing industry is majorly dominated by a few large entities which have scale advantages in purchasing, manufacturing, distribution, and marketing whereas small companies can compete effectively by offering specialized products, providing superior customer service, or serving a local market.

Key Rating Weakness

Volatility in raw material prices: The major raw materials of Jocil are non-edible oils and fatty acid distillates which are by-products generated through refining vegetable oil. Raw material cost is a major component (FY19:74%) in the cost of production for the company. The company generally procures majority of raw material from oil refineries in Indian and a small portion is imported (9-15%). However, during FY19 company has procured relatively large quantum of raw materials through imports (~33%), due to the price advantage. Jocil witnessed drop in the input prices during FY19 and further during Q1FY20.

Limited bargaining power with client concentration risk: Jocil being a moderate-sized company supplying to major FMCG companies in India, has limited bargaining power. The customer base of Jocil includes companies like ITC, Reckitt Benckiser, Marico Industries Limited, HUL and MRF, who by virtue of their size and market power are able to extract better prices from the company. This apart, the companies operating in tax exemption zone are also able to supply at relatively lower prices thereby resulting in stiff competition. Also, the soap noodle segment has an inverted duty structure (custom duty on raw material whereas the final product is duty free). Hence, cheaper imports also result in low bargaining power.

Elongated operating cycle: Jocil operates in a working capital intensive industry marked by relatively high inventory period and longer credit period advanced to its customers compared to the credit period it enjoys from its suppliers. The working capital cycle of the company although shortened from 109 days during FY18 to 89 days in FY19 backed by improvement in inventory and debtor days, it continues to remain elongated at close to three months. Nevertheless, company manages its working capital requirements efficiently with very low reliance on working capital borrowings.

Liquidity Position: Strong: Liquidity profile of Jocil continues to remain strong with healthy cash accruals generated vis-a-vis no major long term debt servicing obligation. The company only has short term fixed deposits, which however are revolving in nature. The company had a free cash balance of Rs.23.92 crore as on September 30, 2019 (Rs.16.05 crore as on March 31, 2019); which in the absence of any significant term debt obligation provides comfortable cushion for liquidity. The current ratio of the company also improved to 4.27x as on March 31, 2019 (2.40x as on March 31, 2018).

Analytical approach: Standalone.

Applicable criteria

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

About the company

Jocil Limited (Jocil) was incorporated in February 1978 as Andhra Pradesh Oil and Chemical Industries Limited which, later in 1992 was renamed as Jocil Limited. Jocil is primarily engaged in the manufacturing of fatty acids, stearic acid, refined glycerine, soap noodles, toilet soap and its by-products and industrial oxygen at its manufacturing facility in Dokiparru village, Guntur district, Andhra Pradesh. The company also has a 6 MW biomass cogeneration captive power plant at the same premises. Any surplus electricity, after meeting the requirements of the unit, is sold to Southern Power Distribution Company Limited of Andhra Pradesh (APSPDCL). Apart from the biomass captive power plant, Jocil also has 4 Wind Energy Generators (WEG) in the state of Tamil Nadu aggregating to 6.3 MW capacity and the power generated is sold to Tamil Nadu Generation & Distribution Corporation Ltd (TANGEDCO).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20(UA)
Total operating income	346.54	404.36	200.03
PBILDT	12.88	8.38	11.40
PAT	4.10	3.17	6.15
Overall gearing (times)	0.04	0.05	0.07
Interest coverage (times)	9.07	5.95	25.33

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	18.00	CARE A2
Fixed Deposit	-	-	-	20.00	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 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-Cash Credit	LT	40.00	CARE A-; Stable	-	1)CARE A-; Negative (28-Dec-18)	1)CARE A-; Negative (19-Feb-18) 2)CARE A; Stable (29-Sep-17)	1)CARE A+ (06-Jul-16)
2.	Non-fund-based - ST-BG/LC	ST	18.00	CARE A2	-	1)CARE A2 (28-Dec-18)	1)CARE A2 (19-Feb-18) 2)CARE A2+ (29-Sep-17)	1)CARE A1 (06-Jul-16)
3.	Fixed Deposit	ST	20.00	CARE A2 (FD)	-	1)CARE A2 (FD) (28-Dec-18)	1)CARE A2 (FD) (19-Feb-18) 2)CARE A2+ (FD) (29-Sep-17)	1)CARE A1 (FD) (06-Jul-16)

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

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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