Jocil Limited

December 28, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	40.00 (enhanced from 30.00)	**CARE A-; Negative [Single A Minus; Outlook: Negative]**	Reaffirmed
Short term Bank Facilities	18.00 (enhanced from 15.00)	**CARE A2 (A Two)**	Reaffirmed
Total Facilities	**58.00 (Rupees Fifty Eight crore only)**		
Fixed Deposit programme	20 (Rupees Twenty crore only)	**CARE A2 (FD) [A Two (Fixed Deposit)]**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed public 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 and debt coverage indicators with absence of term debt and comfortable liquidity position. The ratings also factors in improvement in financial performance during H1FY19 (refers to the period April 1 to September 30), after witnessing deterioration in FY18. The ratings are, however, constrained by continuous decline in profit level and margins with stiff competition from other large sized players having manufacturing units in tax exemption zone, volatility in raw material prices and low bargaining power with the clients and associated client-concentration risk. The ability of the company to optimally utilize the capacity, manage the volatility in the raw material prices and improving the profitability levels are the key rating sensitivities.

Outlook: Negative

The 'Negative' outlook on rating reflects the expected continued pressure on the company's performance on account of severe competition in the product segments with continued low profitability during Q2FY19. The outlook may be revised to 'Stable' if the company is able to manage competition and improve the operational/financial performance as projected for FY19.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter group and established track record: Incorporated in 1978 as Andhra Pradesh Oil and Chemical Industries Limited, the company has more than three decades of experience in manufacturing stearic acid flakes, fatty acids, toilet soap, soap noodles and refined glycerin. The company belongs to a strong promoter group and Managing Director (MD); Mr. J. Murali Mohan, has over three decades of experience in the industry. Jocil is a subsidiary of TASL (holding 55.02% stake) which has established business operations in South India.

Diverse product segment and reputed client base: The product segment of Jocil includes Oleo chemicals (Fatty acid, Stearic Acid, Glycerin) and Soap Products (Soap Noodles and Toilet Soaps). The majority of revenue (about 63% in FY18) is derived from sale of fatty acids followed by soap noodle segment (26%). The company sells translucent premium soap noodles to some of the relatively large sized FMCG companies. It sells the products to a reputed client base like Unilever group (Hindustan Unilever Limited and Unilever Srilanka Limited), Reckitt Benckiser (India) Limited, ITC Limited etc.

Captive power generation: 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. 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.

Comfortable capital structure and debt coverage indicators: Jocil has a favourable capital structure with relatively low reliance on external borrowings. The debt profile of the company consists of working capital borrowings and short term fixed deposits from shareholders and others. Comfort is derived from the company not having any term debt. As on

March 31, 2018, the company had total debt of Rs.6.65 crore (against Rs.28.42 crore as on March 31, 2017) which includes 6.54 crore of Fixed Public Deposits.

Comfortable liquidity position: Liquidity profile of Jocil continues to remain strong with adequate cash accruals generated and low debt servicing obligations. The company had a free cash balance of Rs.2.0 crore as on March 31, 2018, and liquid fixed deposits (less than 3 months) of around Rs.7.86 crore, which in the absence of any significant term debt obligation, provides cushion for liquidity. The fund based utilization has remained at a low level with average utilization being about 8% during the last 12 months ended.

Stable industry outlook: 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. Both the consumer and the commercial segments of the soap and detergent manufacturing industry are highly competitive where the large companies have the leverage of spending huge on marketing and sales promotion to maintain market share.

Key Rating Weaknesses

Reduced capacity utilization of major product segment during FY18: The operational performance of the company faced a slowdown during FY17 and the same continued in FY18; with decrease in capacity utilisation levels and drop in volume sales of major product segments at the back of lower demand of soap products from the major brand owners. Jocil experienced a severe competition from some of the well-established manufacturers which, having backward integration, sourced the fatty acid from their own plants as an effort to keep their raw material cost lower than the increasing cost in the market. Consequently, in FY18, the capacity utilisation of fatty acid and soap noodles decreased to 65% (FY17: 73%) and 18% (FY17: 29%), respectively.

Subdued financial performance in FY18 albeit improvement during H1FY19: The company had been facing subdued business performance, with sales and profit level witnessed deterioration in FY18. The company has been facing stiff competition from the manufacturers located in tax-exempt areas as well as oil refineries which have fatty acid/soap segment as a forward integration arm. These units are able to cater to higher volumes at low prices which in a scenario of rising landed cost of CPO prices (due to high import duty levied) resulted in reduced business volume for Jocil. Consequently, the company lowered its prices to maintain business volume thereby impacting the profitability. Hence, the business loss during first three quarters of FY18 resulted in reduced revenue, PBILDT and PAT during the year.

Nevertheless, during H1FY19, Jocil has reported net profit as against the loss reported in H1FY18. This was mainly at the back of increasing volume and declining trend in raw material prices. However, continued improvement in business and financial performance during H2FY19 and consequent impact on the financials projected would be critical from credit perspective.

Volatility in raw material prices: The major raw materials of Jocil are non-edible oils and fatty acid distillates which are sourced from the vegetable oil refineries. These oil refineries use imported palm based products such as Crude Palm Oil (CPO) as their raw material which is short in supply in India. This makes the fatty acid industry heavily dependent on global price movements and demand-supply position of such palm based products which are mainly imported from Malaysia and Indonesia. The company procures majority of raw material from oil refineries in Indian and a small portion is imported (9-15%). Jocil witnessed increase in the input prices during FY17 and further during 9MFY18. However, price reduction during Q4FY18 resulted in almost stable prices for full year.

Limited bargaining power with client concentration risk: Jocil being a moderate-sized company and supplying to major FMCG companies in India has limited bargaining power. Jocil's top ten customers contributed around 72% of the gross sales during FY18 vis-à-vis 69% of the gross sales during FY17, thereby increasing the client concentration risk.

Analytical approach: Standalone financials of Jocil have been considered for analysis.

Applicable Criteria

[Criteria on assigning Outlook 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 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 glycerin, 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. In 1988, The Andhra Sugars Limited acquired a controlling stake (55.02%) in Jocil and has been the holding company since then. TASL is engaged in the manufacturing of sugar, organic and inorganic chemicals at its plants located at Tanuku, Kovvur, Taduvai, Saggonda and Bhimadole in Andhra Pradesh.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	387.13	346.54
PBILDT	17.81	12.88
PAT	8.21	4.10
Overall gearing (times)	0.17	0.04
Interest coverage (times)	10.31	9.07

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.*

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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-Cash Credit	-	-	-	40.00	CARE A-; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	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 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-Cash Credit	LT	40.00	CARE A-; Negative	-	1)CARE A-; Negative (19-Feb-18) 2)CARE A; Stable (29-Sep-17)	1)CARE A+ (06-Jul-16)	1)CARE A+ (09-Jul-15)
2.	Non-fund-based - ST-BG/LC	ST	18.00	CARE A2	-	1)CARE A2 (19-Feb-18) 2)CARE A2+ (29-Sep-17)	1)CARE A1 (06-Jul-16)	1)CARE A1 (09-Jul-15)
3.	Fixed Deposit	ST	20.00	CARE A2 (FD)	-	1)CARE A2 (FD) (19-Feb-18) 2)CARE A2+ (FD) (29-Sep-17)	1)CARE A1 (FD) (06-Jul-16)	1)CARE A1 (FD) (09-Jul-15)

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