July 16, 2024

Oriental Aromatics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	150.00	28.33	[ICRA]A-(Stable); reaffirmed
Long term/Short term – Fund based/Non fund based	270.65	345.55	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**420.65**	**373.88**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Oriental Aromatics Limited (OAL) factors in the company's established market position in the Indian camphor and aroma chemical industry, its diversified product mix and exposure to different end-user industries. Further, the ongoing capex across all the facilities and the greenfield project at Mahad in Maharashtra are expected to support revenue growth over the longer term.

ICRA, however notes that there has been a consistent pressure on the operating margins because of a sizeable increase in domestic capacities and a significant influx of camphor from China. Moreover, tepid demand in the European and American markets has constrained the realisations and profitability of aroma specialty chemicals. The subdued demand conditions had resulted in a build-up of inventory and lower capacity utilisation in the past, putting pressure on the margins. The situation has started to ease now, and the profitability is expected to be better in the current fiscal. Though the profitability is expected to improve further, it is unlikely to bounce back to the earlier level.

The company had incurred a debt-funded capex of ~Rs. 50-52 crore to expand the capacity of its existing Vadodara (Gujarat) unit, which was funded using a term loan of Rs. 50 crore (~Rs. 30 crore is outstanding as on date). It has also set up a new capacity at Mahad (Maharashtra) for Rs. 140 crore under its wholly-owned subsidiary, Oriental Aromatics and Sons Limited, funded using a term loan of Rs. 70 crore (Rs. 34 crore drawn down till date and the remaining will be drawn down in FY2025) and working capital of Rs 10 crore and OAL has given corporate guarantee for its debt. Both these plants are likely to start commercial production shortly.

The debt-funded capex, coupled with the relatively high working capital intensity, is expected to keep the reliance on external debt high. However, the capex plans have been curtailed materially because of the pressure on demand and profitability, resulting in lower-than-envisaged debt addition. Nevertheless, the overall debt level is likely to remain elevated, moderating the debt protection metrics in the near to medium term, with improvement expected thereafter.

The ratings also remain constrained by the vulnerability of profitability to the fluctuations in raw material prices and the adverse forex movements due to significant imports and exports, although the forex risk is mitigated by the natural hedge. The company also faces intense competition from other established players in the industry as well as imports.

The Stable outlook reflects ICRA's expectation that OAL would continue to benefit from its diversified product portfolio and its position as one of the leading players in the camphor and aroma chemical market. Moreover, the curtailed capex plans and an expected improvement in profit generation, going forward, is likely to generate comfortable cash flows from operations.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established market position in chemical industry - The Bodani family (promoters) has an extensive experience in the chemical industry. Hence, the company continues to benefit from its promoters' experience and its position as one of the leading players in the Indian aromatic chemical and camphor market.

Reputed client base with diverse product mix catering to different industries - OAL has a diverse product mix catering to different industries, such as personal care, food processing, pharmaceutical and industrial purposes, which provides cushion against demand fluctuations in a specific industry. Over the years, the company has established strong relationships with several reputable companies, resulting in repeat business.

Credit challenges

Vulnerability of profitability to volatility in raw material prices and foreign exchange fluctuations - Raw material consumption accounts for ~60% of OAL's sales, exposing its profitability to price fluctuation risk. Its key raw material, alpha-pinene, has witnessed high price volatility in the past. In addition, ICRA notes that the company enters into fixed-price contracts with some of its customers, thereby limiting its ability to pass on the impact of the increase in raw material prices instantaneously. Further, the company is exposed to forex fluctuation risks owing to significant exports and imports, though the risk is partly mitigated by the natural hedge. It keeps its foreign currency receipts in an EEFC account and pays through that account only for its imports, thereby creating a natural hedge to a large extent. The company has adequately passed on the fluctuations in raw material prices to its customers in the camphor segment.

High working capital intensity - The working capital intensity of operations remains elevated (NWC/OI of around 50%) because of OAL's high inventory holding period and debtor days. The inventory levels remain high owing to the large number of products in the fragrance segment where the inventory is 5-6 months. These items are largely purchased in bulk, leading to higher inventory levels. For Bareilly and Baroda, the company typically keeps 2-3 months of raw material inventory. Further, from vendors, it typically makes spot purchases with no LT contracts and the payments are also on sight; some credit is availed on LC which is rolled over to buyers' credit sometimes. OAL gives a credit period of 120-150 days for exports, and 180 days for some customers for specialty chemicals and fragrance, thereby keeping the debtor days high. However, there are no challenges of recovery from its receivables.

Intense competition from domestic manufacturers and imports – The camphor segment has been impacted by Chinese imports and the sizeable increase in domestic capacities, thereby churning out material at lower prices. In the aroma chemical segment, the demand-side pressures caused by the slowdown in Europe and the US impacted the sales and margins.

Environmental and Social Risks

OAL, being present in the chemical industry, is exposed to the risk of tightening regulations on environment and safety and potential penalties in case of any non-compliance. However, as per the disclosures in the audit report, the company is environmentally compliant and adheres to various industry standards. Further, it has appropriate waste management systems across its facilities. The company is also compliant with environmental law/regulations pertaining to water and air pollution.

The company's exposure to social risks mainly pertains to safe operations and remains compliant with all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units. As per the disclosures, the company has safety equipment in place at its units.

Environmental considerations - The chemical industry has to properly manage its effluents, wastes, GHG emissions, and maintain the air quality etc. The company is following all the applicable guidelines and laws issued by the state and central pollution control board and regularly submits compliance reports for the same. It has taken various steps for conserving energy and has also made efforts towards R&D and technology absorption.

Social considerations - The global speciality chemicals market is experiencing a rapid change due to the growing end-use applications, demand for efficient and safe chemicals and environmental awareness. OAL's continuous R&D has aided the development of products with optimal and innovative characteristics and is one of the primary drivers, facilitating the expansion of the market.

Liquidity position: Adequate

OAL's liquidity is expected to remain adequate, supported by undrawn lines of credit. ICRA notes that the company incurred a debt-funded capex of ~Rs. 200 crore. Further, considering the high working capital intensity, the working capital requirement is also expected to remain elevated. Nevertheless, ICRA notes that the utilisation of the company's fund-based limits has remained low with an average utilisation of ~60% in the last 12 months, providing buffer to its liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade OAL's ratings if there is a consistent growth in turnover and profit generation, along with an improvement in the working capital cycle, translating into better debt protection metrics and liquidity profile.

Negative factors – Pressure on the ratings could arise in case of a significant decline in the operating income and profitability that would weaken the debt protection metrics and stretch the working capital cycle, impacting OAL's liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not applicable
Consolidation/Standalone	**Consolidation** For arriving at the ratings, ICRA has combined the business and financial risk profiles of Oriental Aromatics Limited (OAL) and its subsidiary, Oriental Aromatics and Sons Limited, as the entities are owned and managed by the same promoters and are involved in related business sectors

About the company

OAL is a publicly listed company, which manufactures a variety of terpene chemicals, camphor, speciality aroma chemicals, fragrances and flavours. Its product range includes synthetic camphor, terpineol, pine oil, resins, astromusk, perfumery chemicals, fragrances and flavours, and other chemicals used in different industries (such as pharmaceuticals, soaps and cosmetics, rubber and tyres, paints and varnishes, and fast-moving consumer goods, or FMCG). The company has three manufacturing plants at Nandesari (Vadodara, Gujarat), Bareilly (Uttar Pradesh) and Ambernath (Maharashtra). It is currently setting up a new unit at Mahad, Maharashtra, under its wholly-owned subsidiary, Oriental Aromatics and Sons Limited.

Key financial indicators (audited)

OAL Consolidated	FY2023	FY2024
Operating income	849.1	836.4
PAT	19.7	9.1
OPBDIT/OI	6.4%	5.6%
PAT/OI	2.3%	1.1%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	4.3	4.4
Interest coverage (times)	4.2	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Jul 16, 2024	June 08, 2023	Jan 20, 2023	Jan 04, 2022	Dec 21, 2021
1	Long term fund-based Term loan	Long term	28.33	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
2	Long term/Short term – Fund based/Non fund based	Long term and short term	345.55	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+
3	Long term – Unallocated	Long term	-	-	-	-	-	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – Fund-based/Non-fund based limits	Simple
Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term fund-based – Term loan**	Mar-Jun 2021	3M Repo + 1.5%; 3M T Bill + 2.09%	FY2027	28.33	[ICRA]A- (Stable)
NA	**Long term/Short term - Fund based/Non-fund based**	NA	NA	NA	345.55	[ICRA]A- (Stable)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Oriental Aromatics and Sons Limited	100%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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