Eternis Fine Chemicals Limited

December 24, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Bank Facilities - Long term	328.12 (enhanced from 120.34)	CARE A; Stable [Single A; Outlook: Stable]	Reaffirmed
Bank Facilities - Short term	166.50 (reduced from 225.50)	CARE A1 [A One]	Reaffirmed
Total Facilities	494.62 (Four hundred ninety four crore and sixty two lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Eternis Fine Chemicals Limited (EFCL) continues to factor in the established position of EFCL in manufacturing of fragrance chemicals marked by consistently large quantum (~77%) of export sales, its resourceful and experience promoter group and established relation with reputed clientele. The rating also continues to derive comfort from consistent sales volume backed growth in its scale of operations, healthy operating profit margins with adequate liquidity. During FY20, some moderation in overall financial performance was reported on back of volatility in the raw material prices resulting in lower sales realization along with additional debt availed in order to fund its capex for backward integration, new product development and automation of existing facility.

The aforesaid mentioned strengths continue to be constrained on account of susceptibility of its operating profitability to volatility in key raw materials prices which are derivative of crude oil, high competition from other established players and moderately concentrated product portfolio.

During H1FY21, EFCL reported a substantial improvement in the performance amid the operational impact of CoVID-19. The TOI though witnessed a decline by ~10% y-o-y but the PBILDT margins improved by ~600bps driven by improved realization received on the sale of goods along with increased focus on manufacturing activities.

Rating Sensitivities

Positive Factors

- Increase in PBILDT margin above 15% on a sustained basis
- Overall gearing below 0.5x on a sustained basis

Negative Factors

- Weakening of debt protection metrics with gearing ratio deteriorating below 2.0x on a sustained basis
- Steep decline in operating profitability below 9% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established clientele and strong market position bodes well for EFCL

EFCL is an established aroma chemical manufacturing company operating in the Flavor & Fragrance (F&F) industry since the last two decades. This significant experience has helped the promoters gain understanding of the various ingredients used in the aroma chemicals, especially used in the F&F segment. EFCL is predominantly into exports with it accounting for ~77% of the total operating income. EFCL supplies its products to the various global companies engaged in fragrance synthesizing operations who in turn supply to FMCG majors. The aroma chemicals find wide usage across segments including soaps, detergents, perfumes, incense sticks amongst others. Its clientele includes global majors such as Givaudan (Switzerland), International Flavour and Fragrance (USA), Firmenich (Switzerland), and Symrise (Germany). These four consumers enjoy a dominant position in the global flavor and fragrance industry constituting 43% of the global flavor and fragrance market and EFCL has long standing relationship with these companies. The acquisition of AIPL will help EFCL increase its presence in the domestic market, as AIPL derives majority of its total revenue from domestic sales.

Strong manufacturing set-up and demonstrated R&D capabilities

EFCL has set up dedicated plants for manufacturing aroma chemicals, with separate production lines that enable it to ramp-up production of desired products as per market conditions. As these plants are favorably located it enables EFCL to serve

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

international fragrance houses effectively and efficiently. During FY20, the capacity utilization of its existing manufacturing units stood at ~85-90%.
EFCL has developed strong in-house R&D capabilities with state-of-the-art facility recognized by Government of India (GoI), Ministry of Science and Technology. This has helped EFCL improve existing processes; bring out operating efficiencies by reduction in effluent generation. Further, the company's R&D team keeps developing new molecules which give a boost to its revenue.

Comfortable financial risk profile despite moderation due to debt funded capex
As on March 31, 2020; EFCL's overall gearing has marginally improved to 1.25x from 1.41x as on March 31, 2019 on account of lower utilisation of working capital limits due to efficient working capital management. The long term loans increased in FY20 due to additional debt availed for funding capex. Debt protection metrics have moderated with interest coverage of 3.71x (PY: 5.57x) and TDGCA of 6.35x (PY: 4.18x) in FY20, however remain comfortable. The coverage indicators witnessed a decline in FY20 due to increase in the interest cost owing to the undergoing capex which impacted the profitability at PAT level as well, resulting in lower gross cash accruals.

Despite moderation in FY20, comfortable scale and margins continue
In FY20, EFCL reported a marginal decline in TOI by 4.08% as compared to TOI in FY19 due to decline in sales realization during the year end on account of operational constraints caused due to the impact of CoVID-19. FY19 was an exceptional year when the flow of demand was high due to temporary shut-down of chemical plants in China, thus diverting demand to several Indian companies. Going forward, the successful stabilization of the new capacities is likely to boost revenue growth. The acquisition of AIIMs is expected to add on to the operating income of the company in the domestic space. Operating margins moderated to 10.67% in FY20 on back of increase in overhead cost along with volatility in raw material prices which due to competition could not be fully passed on to its clientele. The moderation in PBILDT also effected the margins at PAT levels.
During H1FY21, EFCL though reported a y-o-y dip in the TOI but due to better sales realization on few of its product range and efficient management of variable and fixed expenses managed to book around ~17.00% PBILDT translating into better PAT margins as compared to H1FY20.

Key Rating Weaknesses
Significant product concentration in revenue
EFCL is exposed to concentration risk as the top four products form a sizeable proportion of turnover, with hydrogenated products alone contributing more than 30%. However, the risk is partially mitigated by company's presence in the relatively stable functional fragrances segment that largely caters to players in the soaps and detergents industry.

Susceptibility of profitability to volatility in raw material prices
EFCL's key raw materials prices, being crude oil derivatives, it remains exposed to volatility in crude oil prices. Further, EFCL's customers give orders on contract basis wherein the product prices are fixed for a quarter leading to a time lag in passing on the raw material price increase. Due to these factors, EFCL's profit margins remain susceptible to volatility in raw material prices.
Exposure to competition in the aroma chemicals industry
Intense competition in the aroma chemicals ingredients industry, where several global players have presence, has led to pricing pressure on suppliers such as EFCL. Ability to achieve further cost efficiencies and maintain consistency in product offering amidst competition from organized and unorganized players will remain the key rating monitorable for EFCL.

Liquidity: Adequate
EFCL has adequate liquidity as indicated by strong accruals against its debt repayment obligation. The liquidity is further supported by presence of unencumbered cash balance of Rs.67.25 crore as on March 31, 2020. Further, the average working capital utilization remained low at ~50% (for 12 months ended October 2020), leaving some headroom for additional requirements.

Analytical approach: The analytical approach has been changed from standalone basis to consolidated basis wherein the three wholly owned subsidiaries of EFCL have been consolidated. Details of the entities considered for consolidation are:

Name of Entity	Extent of Consolidation	Rationale for consolidation
HPFL BV	100%	Marketing arm for exports, Common management, business strategies and same promoters
Eternis UK Limited	100%	
Eternis USA LLC	100%	

Applicable Criteria
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing companies
Criteria for Short Term Instruments
Criteria for Consolidation
Liquidity Analysis- Non Financial Sector
Criteria for Short Term Instruments

About the Company
Eternis Fine Chemicals Limited (EFCL, (Formerly known as Hindustan Polyamides & Fibers Limited)) was incorporated in February 25, 1965 by Mariwala group. EFCL is a closely held public limited company engaged in the manufacture of aroma chemicals. EFCL exports to over 20 countries with ~77% of total turnover contributed by exports. EFCL's has two manufacturing facilities located in Pune and a captive hydrogen plant.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore) (standalone)	FY19 (A)	FY20 (A)	H1FY21 (UA)
Total operating income	1006.95	965.91	461.67
PBILDT	137.82	103.05	78.93
PAT	59.47	29.12	34.13
Overall gearing (times)	1.41	1.25	-
Interest coverage (times)	5.57	3.71	9.37

A=Audited, UA=Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term Loan	-	-	-	**March 2023**	**34.12**	**CARE A; Stable**
Fund-based-Long Term	-	-	-	-	**294.00**	**CARE A; Stable**
Non-fund-based - ST-BG/LC		-	-	-	**166.50**	**CARE A1**

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-Long Term Loan	LT	34.12	CARE A; Stable	-	1)CARE A; Stable (30-Dec-19)	1)CARE A; Stable (17-Sep-18) 2)CARE A; Stable (11-Jun-18)	1)CARE A; Stable (27-Jul-17)
2.	Fund-based-Long Term	LT	294.00	CARE A; Stable	-	1)CARE A; Stable (30-Dec-19)	1)CARE A; Stable (17-Sep-18) 2)CARE A; Stable (11-Jun-18)	1)CARE A; Stable (27-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	166.50	CARE A1	-	1)CARE A1 (30-Dec-19)	1)CARE A1 (17-Sep-18) 2)CARE A1 (11-Jun-18)	1)CARE A1 (27-Jul-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT	Simple
2.	Fund-based - LT	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. 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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