

Press Release

Camlin Fine Sciences Limited

February 06, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 392.30 Cr.
Long Term Rating	ACUITE A- / Outlook : Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 392.30 crore bank facilities of CAMLIN FINE SCIENCES LIMITED(CFSL). The outlook is '**Stable**'.

Acuité, wide its press release dated Jan. 17, 2020 had placed the long term rating of 'ACUITE A-' and short term rating of 'ACUITE A2+' on 'Rating watch with developing implications' in response to notice received by the company from MPCB for closure of manufacturing unit at Tarapur, Palghar District.

MPCB has issued conditional restart directions with respect to the company's manufacturing unit subject to company fulfilling certain terms and conditions. Acuité understands that the company has already taken necessary steps to fulfil the conditions and would be duly satisfying all the conditions mentioned in the restart notice. The manufacturing unit has started functioning from February 1, 2020. Hence, Acuité is resolving the rating watch and reaffirming the long term rating of 'ACUITE A-' and short term rating of 'ACUITE A2+' on the bank facilities of CFSL.

Camlin Fine Chemical was incorporated in year 1993. Camlin Fine Chemical was one of the division in the Kokuyo Camlin Limited erstwhile Camlin Ltd. to manufacture antioxidants for the global market. CFSL was formed after de-merging (mirror shareholding) the fine chemical business from Camlin Ltd. Manufacturing plant of the company was set up in Tarapur, Maharashtra. Camlin Fine Sciences Limited researches, develops, manufactures, and markets specialty chemical and blend products with a customer base spread across 80 countries worldwide including India and products having applications in food, feed, animal and pet nutrition, flavours and fragrances, agro chemicals, petro chemicals, dyes and pigments, polymers, bio-diesel and pharmaceutical which can be broadly classified under three main verticals, namely, Shelf Life Solutions, Performance Chemicals, and Aroma.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of CFSL and its eight subsidiaries and ten step-down subsidiaries together referred to as the 'Camlin Group' (CG) to arrive at the rating. The consolidation is in view of operational and financial synergies amongst the group companies, and common management.

Following is the list of companies that have been consolidated:

Sr.	Company's Name	Subsidiary / Step Down Subsidiary
1	CFCL Mauritius Pvt. Ltd.	Subsidiary
2	CFS Do Brasil Industria	Subsidiary
3	CFS North America LLC	Subsidiary
4	Solentus North America Inc.	Subsidiary
5	CFS Antioxidantes De Mexico S.A. De C.V	Subsidiary
6	CFS International Trading (Shanghai) Ltd.	Subsidiary
7	CFS Pahang Asia Pte. Ltd.	Subsidiary
8	Chemolutions Chemicals Ltd.	Subsidiary

9	CFS Europe SPA	Step down subsidiary
10	CFS Argentina SA.	Step down subsidiary
11	CFS Chile	Step down subsidiary
12	Dresen Quimica S.A.P. I. de C.V.	Step down subsidiary
13	Industrias Petrotec de Mexico S.A de C.V.	Step down subsidiary
14	Nuvel, S.A.C	Step down subsidiary
15	Britec, S.A	Step down subsidiary
16	Inovel, S.A.S.	Step down subsidiary
17	Grinel, S.A	Step down subsidiary
18	CFS Wanglong Flavours (Ningbo) Co. Ltd.	Step down subsidiary

Key Rating Drivers

Strengths

- **Extensive experience of promoters with an established position in the antioxidant and specialty chemical segment with a diversified clientele**

CFSL is one of the major players across the globe in the food antioxidants market, with a strong position in Aroma segment and specialty chemicals. The company has been manufacturing antioxidants for three decades and has varied product offerings including food antioxidants (Tertiary Butyl Hydroquinone (TBHQ) and Butylated Hydroxy Anisole (BHA)), Aroma ingredients, and other specialty chemicals.

The customer base is also diversified across the domestic and international markets, with top 10 customers contributing ~35 per cent to revenue in FY2018; the company derives 13.39 per cent of its revenues from domestic market, while balance is through export sales. CFSL is the flagship company of the group and is engaged in this industry for more than 26 years. The company is promoted by Mr. Ashish Dandekar who is the Managing Director of the company holds extensive industry experience of around three decades in the chemical and pharmaceutical industry.

The extensive experience of the promoters in the industry has helped the company build strong market presence. Some of the key customers are Adani Wilmar Ltd (AWL), FMC Agricultural Products International Ag (FMC), Vitablend Nederland B.V. (Vitablend) among others.

CFSL is setting up a plant in Dahej, Gujarat with a proposed capacity of 10,000 MTPA for manufacturing of Diphenols and its derivatives and is expected to be completed by June 2019 and commissioning of the plant and trial runs are expected to start by September 2019, thereby providing a strong revenue visibility over medium term. Acuite believes that CFSL will continue to benefit from its experience in the chemical and pharmaceutical industry and its relations with large players in the chemical industry over near to medium term. On account of its established presence in the industry, CFSL has been able to build esteemed client profile.

- **Expected Improvement in financial risk profile**

CG's financial risk profile is marked by healthy net worth, low gearing and below average debt protection measures. The net worth of the company increased to Rs.363.97 crore as on 31st March 2018 as against Rs.183.01 crore in the previous year on account of an issue of qualified institutional placement (QIP) of Rs. 150.00 crore in November, 2017.

The company has followed an aggressive financial policy in the past, as reflected by its peak gearing of around 1.81 times as on March 31, 2017 and high Debt/EBITDA levels as on March 31, 2018 at 13.1x due to the recent acquisitions. The total debt of Rs. 372.81 crore consists of long term debt of Rs.118.92 crore, Rs.246.79 crore of short term debt obligations, Rs. 2.54 foreign currency unsecured loans and Rs. 4.56 crore of unsecured loans from banks. The high level of leverage is attributable to acquisitions made by Camlin Group over the last four years through FY 2018. The group acquired Mexican unit in 2016 and Chinese unit in 2017. The acquisition of these foreign units led to higher levels of debt on the group's balance sheet. At the same time, there was a sharp deterioration in profitability levels due to losses arising from its overseas subsidiaries due to initial stage of operations and discontinuation of business from its largest customer, which accounted around ~21 per cent of FY16 consolidated revenue and ~50 per cent of its EBITDA, leading to low profitability and consequent higher level of leverage and below average debt protection measures. The interest coverage ratio stood at 0.87 times in FY18 as against 1.51 times in the previous year.

Despite additional ~Rs.186.00 crore of revenues in FY 18, the cash accruals remained low at Rs.2.68 crore. The company has Rs. 23.52 crore of annual debt obligation for FY20 against which the accruals as on 31st December, 2018 is only around ~Rs.18.39 crore which is mainly attributed to gestation losses in South America, North America and China operations. However Camlin Group's Europe and Mexican Operations have turned cash positive in H1-2019 and are expected to add to the operating profitability significantly over the medium term on back of sustained improvement in the capacity utilization. This coupled with optimal utilization of the aroma ingredient unit in China, establishment of business in South America, setting up of Dahej plant and the preferred supply agreement with the Lockheed Martin Advanced Energy Storage USA in November 2017 for supply of specialty chemicals is expected to lead to moderate cash accrual vis-à-vis the group's debt repayment and routine capex requirements. Acuite expects the group to generate cash accruals in the range of Rs.34.00-70.00 crore against its maturing debt repayment obligations of Rs.16.64 crore in FY 2019 and Rs. 23.52 crore in FY 2020.

Acuite expects the Debt to EBITDA (annualized) of around 5.0X by September, 2019 (i.e. H1 FY20). Any significant challenge in attaining the expected levels by September 2019 is likely to impart a negative bias to the rating. Acuite believes that CG's financial risk profile is expected to improve on the back of steady improvement in scale of operations, higher operating profitability mainly from the Dahej unit and gradual reduction in term debt levels, over the near to medium term.

The total debt of Rs. 449.02 crore consists of long term debt of Rs. 113.87 crore, recently raised FCCBs of Rs. 107.54 crore, Rs.227.61 crore of short term debt obligations as on 30th September, 2018 (provisional). FCCBs If not converted, 50 per cent of it will be redeemed on the day immediately following the 5th year of subscription and the balance 50% on the day immediately following the 6th year of subscription.

Weaknesses

- **Intense competition due to fragmented nature of specialty chemicals, antioxidants industry and Exposure to risks related to regulatory changes**

The domestic specialty chemical industry is highly fragmented, and a large part of the industry is serviced by small and mid-sized entities also it is dominated by 5-6 large multinational players such as Ciba Specialty Chemicals (BASF SE), SABIC, Lanxess AG, Songwon Industrial Group and Akzo Nobel N.V. These players have large surplus production capacity and engage in competitive pricing when the global demand weakens. However the group has moved into forward integration into blend business and the objective is to go beyond the current bulk business which is prone to margin pressures from both input and output side. This forward integration will create the entry barriers to existing and prospective entrepreneurs into the blend business which is a technology and knowledge based business. In this regard, CG has the advantage of an extensive and successful track record and enjoys a healthy association of nearly three decades with most of its customers, which ensures revenue visibility over the medium term. CG is susceptible to regulatory changes in the Indian and global markets as a majority of its revenue is derived from food grade ingredients. However, the group is increasing the proportion of specialty chemicals and aroma products to mitigate the risks.

- **Working capital intensive nature of operations**

The working capital management is marked by Gross Current Assets (GCA) of 278 days in FY2018 as against 272 days in FY2017. The company maintains inventory of around 120 days on an average as the group provides for the raw material requirements of overseas subsidiaries centrally from India and extends clean credit of around 90 days to its customers, resulting in high GCA days. The inventory and debtor levels stood at 124 days and 105 days in FY2018 as against 144 days and 98 days in FY2017 respectively. Acuite believes that the working capital requirement will continue to remain high over the medium term on account of its high inventory requirements.

Financial Policy

CFSL's improvement in profitability has been driven by the operational performance of its overseas subsidiaries such as Mexico, Mauritius, and South America. In view of the increased importance of these overseas operations in the overall performance, CFSL will also be exposed to exchange rate risk arising out of volatility in these currencies such as Mexican Peso or Brazilian Real.

Outlook: Stable

Acuite believes that the outlook on CFSL's facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and improving financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability largely

facilitated through improvement in capacity utilization. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital requirements or higher than anticipated capex.

About the Group

CG includes nineteen companies including the flagship company CFSL, its eight subsidiaries and ten step-down subsidiaries. CG is engaged in manufacturing of antioxidants, aroma ingredients, specialty chemical and blend products. It is a Mumbai based group promoted by Mr. Ashish Dandekar.

Liquidity position

CFSL has adequate liquidity marked by its recent QIP of Rs.150 crore and FCCB of Rs.107.54 crore. The company generated cash accruals of Rs.3.00 to Rs. 53.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.10.00 to Rs. 17.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.30.00 - Rs.70.00 crore during 2019-21. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 277 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.38.76 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.42 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of expected improvement in cash accrual while its maturing debt obligations are estimated to be in the range of Rs.20.00 to Rs. 23.50 crore.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	892.17	720.60
PAT	Rs. Cr.	3.01	(23.97)
PAT Margin	(%)	0.34	(3.33)
Total Debt/Tangible Net Worth	Times	1.26	1.02
PBDIT/Interest	Times	1.51	0.87

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-Jan-2020	Cash Credit	Long Term	16.00	ACUITE A- (Under rating watch with developing implications)
	Packing Credit	Long Term	30.00	ACUITE A- (Under rating watch with developing implications)
	Cash Credit	Long Term	65.00	ACUITE A- (Under rating watch with developing implications)
	Cash Credit	Long Term	89.00	ACUITE A- (Under rating watch with developing implications)

				developing implications)
	Term Loan	Long Term	7.50	ACUITE A- (Under rating watch with developing implications)
	Standby Line of Credit	Short Term	19.00	ACUITE A2+ (Under rating watch with developing implications)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Under rating watch with developing implications)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Under rating watch with developing implications)
	Letter of Credit	Short Term	36.00	ACUITE A2+ (Under rating watch with developing implications)
	Letter of Credit	Short Term	72.80	ACUITE A2+ (Under rating watch with developing implications)
	Letter of Credit	Short Term	16.00	ACUITE A2+ (Under rating watch with developing implications)
	Letter of Credit	Short Term	25.00	ACUITE A2+ (Under rating watch with developing implications)
06-Mar-2019	Cash Credit	Long Term	16.00	ACUITE A- / Stable (Assigned)
	Packing Credit	Long Term	30.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	65.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	89.00	ACUITE A- / Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE A- / Stable (Assigned)
	Standby Line of Credit	Short Term	19.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	36.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	72.80	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	16.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	25.00	ACUITE A2+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00#	ACUITE A- / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	30.00@	ACUITE A- / Stable (Reaffirmed)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	89.00**	ACUITE A- / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A- / Stable (Reaffirmed)
Standby Line of Credit	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00*	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	36.00*	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	72.80	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ (Reaffirmed)

*one way interchangeability from NFB limit to FB limit up to 50 percent of the sanctioned NFBWC limit of Rs. 44.00 crore

** EPC/PCFC of Rs.89.00 crore sublimit of CC

EPC/PCFC of Rs.16.00 crore sublimit of CC

@BP/FDBP/BD/CC of Rs. 30.00 crore sublimit of PCL

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About Acuité Ratings & Research:

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