

CARE/ARO/RL/2019-20/1363

Mr Nahoosh Jariwala
Managing Director
Fairchem Speciality Limited
253/P & 312, Chekhala
Sanand-Kadi Highway
Taluka: Sanand
Dist. Ahmedabad, Gujarat- 382 115

June 27, 2019

Confidential

Dear Sir,

Credit Rating for Bank Facilities of Fairchem Speciality Ltd.

On the basis of recent developments including operational and financial performance of your company for FY19 (provisional) and approval of the 'Scheme of arrangement and amalgamation' by the Board of Directors of Fairchem Speciality Ltd. (FSL) and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	74.24 (reduced from 83.43)	CARE A (Single A); Under credit watch with developing implications	Continues on Credit Watch with Developing Implications
Long-term/ Short-term Bank Facilities	2.50	CARE A/ CARE A1 (Single A/ A One); Under credit watch with developing implications	Continues on Credit Watch with Developing Implications
Total Facilities	76.74 (Rupees Seventy Six crore and Seventy Four lakh only)		

2. Refer **Annexure 1** for details of rated facilities.
3. CARE will take a view on the ratings once the exact implications of the above event on the credit risk profile of the company are clear.

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



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4. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed documents and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. **In any case, if we do not hear from you by July 02, 2019, we will proceed on the basis that you have no comments to offer.**
5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
7. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall any bank facilities.

If you need any clarification, you are welcome to approach us in this regard.



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Thanking you,
Yours faithfully,



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Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure 1
Details of Rated Facilities

1. Long-term facilities

1. A. Long Term Loans

(Rs. Crore)

Name of Bank	Amount to be rated	Remarks	Debt repayment Term
HDFC Bank	0.80	O/s as on April 30, 2019	Repayable in 60 monthly installments starting from May 2015
	0.41		Working capital term loan (WCTL) repayable in 48 monthly installments from October 07, 2015
	2.11		WCTL repayable in 36 monthly installments starting from July 2017
	12.43		Repayable in 60 monthly installments starting from March 2018
Total	15.75		

1. B. Fund Based Working Capital limits

(Rs. Crore)

Name of Bank	Fund Based Limits						Total
	Cash Credit	DRUL	EPC / PCFC	FBD/ FBP	PSR	BG	
HDFC Bank	50.50	-	(15.00)	(5.00)	(1.50)	(0.65)	50.50
	-	0.99	-	-	-	-	0.99
	-	-	7.00	-	-	-	7.00
Total	50.50	0.99	7.00	-	-	-	58.49

(Figures within brackets denote sub-limit)

EPC=Export Packing Credit; PCFC=Packing Credit in Foreign Currency; FBD=Foreign Bill Discounting; FBP=Foreign Bill Purchase; DRUL – Direct Recourse under Letter of Credit; PSR – Pre-Settlement Risk

Total Long-term Facilities rated (1.A. + 1.B.): Rs.74.24 Crore

2. Long-term/ Short Term Facilities

2. A. Non-Fund Based Facilities

(Rs. Crore)

Name of Bank	Non-Fund based Limits		
	Letter of Credit	Bank Guarantee	Tenure as per Sanction Letter
HDFC Bank	0.75	1.75	LC: Max. 90 days for Inland & Max. 120 days for Import
Total	0.75	1.75	

Total Long-term/ Short-term Facilities rated (2.A.): Rs.2.50 Crore

Annexure 2
Press Release
Fairchem Speciality Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	74.24 (reduced from 83.43)	CARE A (Single A); Under credit watch with developing implications	Continues on Credit Watch with Developing Implications
Long-term/ Short-term Bank Facilities	2.50	CARE A/ CARE A1 (Single A/ A One); Under credit watch with developing implications	Continues on Credit Watch with Developing Implications
Total Facilities	76.74 (Rupees Seventy Six crore and Seventy Four lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Fairchem Speciality Ltd (FSL) continue to remain under 'Credit watch with developing implications' in view of the impending possible impact on its credit profile arising from the proposed scheme of de-merger of FSL's oleochemicals and nutraceuticals business in to Fairchem Organics Limited (FOL) and amalgamation of the aroma chemicals business of its wholly owned subsidiary viz. Privi Organics India Ltd. (POIL) with FSL. CARE will take a view on the ratings once the exact implications of the above on the credit risk profile of FSL become clear.

The ratings continue to derive strength from its resourceful and experienced promoters, its long standing operational track record in manufacturing of specialty chemicals which have diverse industry applications and its established relation with reputed customers. The ratings also take in to account its comfortable profitability & debt coverage indicators and moderate capital structure.

The ratings, however, continue to be constrained on account of FSL's modest scale of operations with susceptibility of profitability margins to volatile raw material prices and foreign exchange rates. The ratings are further constrained due to its exposure to technology obsolescence risk, risk of import substitutability from low cost products from China and stringent pollution control norms.

FSL's ability to significantly grow its scale of operations while maintaining its profitability, improvement in capital structure, widening of its product range and continuation of steady relationship with key customers would be the key rating sensitivities.

Detailed description of the key rating drivers

Composite scheme of arrangement and amalgamation

On May 22, 2019, The Board of Directors of Fairchem Speciality Limited (FSL) and Privi Organics India Limited (POIL; presently a wholly owned subsidiary of FSL) have, subject to various approvals, considered and approved a composite scheme of arrangement and amalgamation to separate the businesses of both FSL & POIL.

Under this scheme, the speciality oleochemicals and nutraceuticals business of FSL (which comprises ~99% of FY19 TOI of FSL) would be demerged into Fairchem Organics Ltd (FOL; presently a wholly owned subsidiary of FSL which is recently incorporated on March 27, 2019) whereas POIL which manufactures aroma chemicals

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would be amalgamated with FSL. In this arrangement, FOL will issue 1 fully paid-up equity share to the shareholders of FSL for every 3 equity shares held by them in FSL; and there would be no cross holdings of the respective Indian promoters of FSL and POIL in both the companies post this arrangement. 'Fairfax' will continue as the promoter in both the companies post this arrangement. As per company management, National Company Law Tribunal (NCLT) order to give effect to the extant scheme is expected to be received before end of FY20 with appointed date of the scheme being kept as April 01, 2019.

Key Rating Strengths

Experienced and resourceful management

Mr Nahoosh Jariawala, Managing Director, is a commerce graduate and has experience of more than 25 years in chemical manufacturing and trading of various textile products. He looks after the core operations of the company including process optimization, product development, production planning, etc. The promoters are well supported by a qualified second tier management.

FIH Mauritius Investment Limited, an investment arm of Fairfax India Holdings Corporations (Fairfax India) held 48.75% equity stake in FSL as on March 31, 2019. Headquartered in Toronto, Canada, Fairfax India was founded in 2014 by Mr V. Prem Watsa (CEO of Fairfax group). The investment portfolio of Fairfax India includes India Infoline Finance Limited, Thomas Cook (India) Limited, Qess Corp Limited, National Collateral Management Services Limited, Bangalore International Airport Limited amongst others.

Established track record of operations along with diversified revenue stream

FSL operates in the specialty chemicals segment where it manufactures niche products with diverse industry applications for the last two decades. FSL's product portfolio includes Mixed Tocopherol Concentrate, Dimer Acid and Linoleic Acid which have diversified industry applications. Diverse application of its products across various industry segments tends to bring greater stability to its revenue. Moreover, company also exports its products to USA. During FY19, the export contribution to net sales remained stable at around 10%.

Reputed Clientele

FSL has long association with its customers in domestic as well as export markets. Moreover, majority of its clientele enjoy leading position in their respective industry segments and hence their credit risk appears to be minimal. Furthermore, FSL has a diversified client base with top 10 customers contributing around 48% of total income during FY19.

Stable scale of operation and healthy profitability during FY19

FSL's scale of operations remained stable in FY19 with ~6% growth in its total operating income to Rs.254.22 crore during FY19 compared with Rs.239.02 crore in FY18. Further, FSL's PBILDT margin remained healthy at 16.05% during FY19 due to optimum utilization of manufacturing capacity coupled with benefit of economies of scale. PAT margin also improved marginally to 8.46% during FY19 in line with marginal improvement in its PBILDT margin.

Moderate capital structure and comfortable debt coverage indicators

FSL's overall gearing improved marginally to 0.55 times as on March 31, 2019 compared to 0.75 times March 31, 2018 on account of scheduled repayment of long term debt. Debt coverage indicators during FY19 continued to remain comfortable marked by PBILDT interest coverage of 7.12 times and Total debt/GCA of 1.98 times.

Liquidity analysis

The liquidity of FSL remained moderate with average working capital utilization of around 76% over the past 12 months ended April 2019. Its working capital cycle increased from 78 days in FY18 to 86 days in FY19 with increase in inventory period; however the same remained range bound. FSL's current ratio remained stable at



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1.09x as on March 31, 2019 and it reported net cash flow from operations of Rs.34.20 crore as on March 31, 2019.

Good industry prospects with fortunes directly linked to end user industries which are envisaged to grow at steady pace

The products manufactured by FSL find application in high growth consumer goods industries like nutraceuticals, paints, printing ink, adhesives, soap manufacturing, etc. As per various industry reports, all these end-user industries are expected to grow steadily due to factors such as rising population, increase in disposable income, increase in penetration of e-commerce which increases demand for packaging and increasing spending on healthcare and nutrition products.

Key Rating Weaknesses

Susceptibility of FSL's profitability to volatile raw material prices and fluctuations in forex rates

Vegetable oil distillate and acid oil are the main raw materials for FSL. These raw materials are by-products of soya and sunflower oils generated during the refining process. The prices of both these oils have historically remained volatile. FSL's exports comprise around 10% of its gross sales over past two years; while major portion of its raw material requirement is procured domestically. Hence, the profitability of FSL is susceptible to volatile agro based raw material prices and forex rates. However, acid oil prices have witnessed relatively lower volatility over the past four years.

Competition from low cost Chinese products

The industry size for Dimer acid and Linoleic acid is relatively small compared to the overall size of chemical industry which limits the growth of the company. Further, FSL faces stiff competition from the low cost products from China especially in Dimer acid. However, FSL has been able to gain significant market share in Dimer acid in India with its apt marketing strategy.

Product obsolescence and substitution risks

Companies like FSL which operate in the niche specialty chemical segment carry a risk in terms of challenges emanating from the development of alternative technologies and introduction of newer products and hence is exposed to the risk of product obsolescence and substitution. However, FSL has expanded its R&D capabilities which facilitate launching of new derivatives of its existing products to its product portfolio.

Risk of compliance with stricter pollution control norms

There is stringent pollution control regulation laid down for chemical processing units under the Gujarat Pollution Control Board (GPCB) norms. The company has been complying with the required pollution control norms and is also expected to commission multi effect evaporator shortly which would reduce its liquid waste. Continuous adherence to the prevailing pollution control norms would remain crucial from the credit perspective.

Analytical approach: Standalone

FSL's management has articulated that FSL would continue to operate independently without any financial linkages with its subsidiary (POIL).

Applicable Criteria:

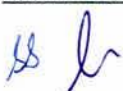
Criteria for placing rating on credit watch

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector



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About the company

Promoted by Mr Rajan Harivallabhdas in May 1985, FSL was formerly known as Adi Finechem Limited. FSL was jointly managed by Mr Harivallabhdas and his cousin, Mr Nahoosh Jariwala. During FY10, Mr Harivallabhdas sold his stake to three new promoters namely Mr Utkarsh Shah, Mr Bimal Parikh and Mr Hemant Shah. Moreover, during FY16, Fairfax India through its wholly owned subsidiary acquired controlling equity stake in FSL from existing promoters. As on March 31, 2019, Fairfax India holds 48.75% equity stake in the company.

FSL is engaged in the manufacturing of specialty chemicals like Mixed Tocopherol Concentrate, Sterols Concentrate, Dimer Acid and Linoleic Acid which find application in various industries like nutraceuticals, paints, printing ink, detergents, adhesives, etc. FSL's manufacturing facility is located at Chekala village near Sanand, Gujarat with an installed capacity (measured in terms of throughput of raw material) of 60,000 MTPA as on May 31, 2019.

Brief Financials (Rs. Crore) [Standalone]	FY18 (A)	FY19 (Prov.)
Total operating income	239.02	254.21
PBILDT	36.58	40.81
PAT	19.40	21.52
Overall gearing (times)	0.75	0.55
Interest coverage (times)	6.35	7.12

A: Audited; Prov: Published results on stock exchange

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

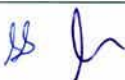
About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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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-Term Loan	-	-	March 2023	15.75	CARE A (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	58.49	CARE A (Under Credit watch with Developing Implications)
Non-fund-based - LT/ST-BG/LC	-	-	-	2.50	CARE A / CARE A1 (Under Credit watch with Developing Implications)

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-Term Loan	LT	15.75	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (30-May-19)	1)CARE A; Stable (28-Jun-18)	1)CARE A-; Positive (28-Jul-17)	1)CARE A- (Under Credit Watch) (10-Aug-16)
2.	Fund-based - LT-Working Capital Limits	LT	58.49	CARE A (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Developing Implications) (30-May-19)	1)CARE A; Stable (28-Jun-18)	1)CARE A-; Positive (28-Jul-17)	1)CARE A- (Under Credit Watch) (10-Aug-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	2.50	CARE A / CARE A1 (Under Credit watch with Developing Implications)	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (30-May-19)	1)CARE A; Stable / CARE A1 (28-Jun-18)	1)CARE A1 (28-Jul-17)	1)CARE A1 (Under Credit Watch) (10-Aug-16)