CARE Ratings
Professional Risk Opinion

CARE/ARO/RL/2018-19/1401

Mr Nahoosh Jariwala
Managing Director
Fairchem Specialty Limited
(Previously known as Adi Finechem Limited)
1st Floor, 2, Sigma Corporates,
Behind HOF, Sindhu Bhavan Road,
Bodakdev, Off S. G. Road,
Ahmedabad – 380 054

June 26, 2018

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your entity for FY18 (A), our Rating Committee has reviewed the following rating:

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term (LT) Bank Facilities	83.43 (enhanced from Rs.76.70 crore)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Long-term/ Short-term (ST) Bank Facilities	2.50	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Positive/ CARE A1 (Single A Minus; Outlook: Positive/ A One) (Reclassified from ST to LT/ST)
Total Facilities	**85.93 (Rupees Eighty Five Crore and Ninety Three Lakh Only)**		

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for this 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 document 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 June 28, 2018, we will proceed on the basis that you have no any comments to offer.
4. 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.

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

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5. 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.
6. 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.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

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

Thanking you,

Yours faithfully,

[Dhruv Shah]
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Sr. Manager
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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 Rated	Remarks	Debt repayment Term
HDFC Bank	0.13	O/s. as on May 15, 2018	Repayable in 60 equal monthly installments starting from July, 2013
	1.68		Repayable in 60 equal monthly installments from May 15, 2015
	0.45		Repayable in 48 equal monthly installments from May 15, 2015
	1.48		Working capital term loan (WCTL) repayable in 48 monthly installments from October 07, 2015
	0.98		WCTL repayable in 36 monthly installments from February, 2016
	3.61		WCTL repayable in 36 monthly installments starting from July 2017
	16.61		Repayable in 60 monthly installments starting from March 2018
Total	**24.94**		

1. B. Fund Based Working Capital limits

(Rs. Crore)

Name of Bank	Fund Based Limits						
	Cash Credit	DRUL	EPC / PCFC	FBD/ FBP	PSR	BG	Total
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.83.43 Crore

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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	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

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Annexure 2

Press Release

Fairchem Speciality Limited

(Previously known as Adi Finechem Limited)

Ratings

Facilities	Amount (Rs. Crore)	Ratings[2]	Rating Action
Long-term (LT) Bank Facilities	83.43 (enhanced from Rs.76.70 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)**
Long-term/ Short-term (ST) Bank Facilities	2.50	**CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)**	**Revised from CARE A-; Positive/ CARE A1 (Single A Minus; Outlook: Positive/ A One) (Reclassified from ST to LT/ST)**
Total Facilities	**85.93 (Rupees Eighty Five Crore and Ninety Three Lakh Only)**		

Details of facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of Fairchem Speciality Limited (Fairchem) takes in to account increase in scale of operation marked by strong growth in total operating income (TOI) and profitability margins during FY18 (A). The growth in total operating income was supported by increase in utilisation of installed capacities subsequent to the stabilisation of recently added capacities.

The ratings continue to derive strength from its resourceful and experienced promoters, its long standing operational track record in manufacturing of specialty chemicals having diverse industry applications and established relations with reputed customers. The ratings also take into account Fairchem's comfortable debt coverage indicators and moderate capital structure and strong financial flexibility at group level.

The ratings are, however, constrained on account of Fairchem's modest scale of operation with profitability susceptible to volatile raw material prices and foreign exchange rates. The ratings are

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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.

Fairchem's ability to continue grow its scale of operations while maintaining its profitability margins and capital structure, widening of its product range and continue steady relationship with key customers would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Increase in scale of operation and profitability margins: After registering a healthy growth of over 20% in total operating income during FY17 over FY16, the total operating income further grew strong by 29% during FY18 over FY17 backed by capacity addition. Fairchem has concluded capax of Rs.35.00 crore during FY17 increasing its installed capacity from 36,000 Metric Ton Per Annum (MTPA) as on March 31, 2016 to 45,000 MTPA as on March 31, 2018. Moreover, the capacity utilisation has increased to 85% in FY18 as against 68% in FY17 due to stabilisation of newly added capacities and effect of demonetization waning out. Further, Fairchem's PBILDT margin improved by 250 bps during FY18 due to optimum utilization of manufacturing capacity coupled with benefit of economies of scale and absence of any major legal and professional fees during the year. PAT margin also improved during FY18 in line with PBILDT margin along with relatively lower depreciation and finance cost.

Experienced and resourceful management: Mr Nahoosh Jariawala, Managing Director, is a commerce graduate and has experience of more than 25 years in chemicals 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) holds 48.75% equity stake in Fairchem as on March 31, 2018. 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 (rated: CARE AA; Positive), Thomas Cook (India) Limited, Quess Corp Limited, National Collateral Management Services Limited (rated: CARE A+/ CARE A1+), ICICI Lombard General Insurance Company Limited, Bangalore International Airport Limited amongst others.

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Established track record of operations along with diversified revenue stream: Fairchem has been operating in the specialty chemicals segment where it is manufacturing niche products with diverse industry applications for the last two decades. Fairchem's product portfolio includes Mixed Tocopherol Concentrate, Dimer Acid and Linoleic Acid having 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. However, during FY18, the export contribution to net sales declined and remained around 10% on account of change in product mix.

Reputed Clientele: Fairchem has long association with its customers in domestic as well as export market. Moreover, majority of its clientele enjoys leading positions in their respective industry segments and hence their credit risk appears to be minimal. Furthermore, Fairchem has a diversified client base with Top 10 customers contributing nearly 48% of total income during FY18.

Moderate capital structure and comfortable debt coverage indicators: Total debt of Fairchem increased during last two years on account of capax undertaken by the company and increase in working capital borrowing to support growing scale of operations. However, the overall gearing of the company remained moderate and improved marginally as on March 31, 2018 compared to March 31, 2017. Debt coverage indicators also improved marked by PBILDT interest coverage ratio and Total debt/GCA ratio during the year.

Financial flexibility on a group level: With the acquisition of Aroma Chemical business of Privi Organics Limited (POL), Fairchem is expected to benefits both in terms of dividend income and appreciation of value of investment. During FY18, on a consolidated basis, Fairchem has reported a total operating income of Rs.1034 crore, PAT of Rs.53 crore, Gross cash accruals of Rs.103 crore. Further, on a consolidated, the tangible net-worth of Fairchem stood at Rs.488 crore as on March 31, 2018. Moreover, on consolidated basis, Fairchem has a moderately low overall gearing ratio of 0.67 times thereby giving financial flexibility to group.

Good industry prospects with fortunes directly linked to end user industry: The products manufactured by Fairchem find application in high growth consumer goods industries like Nutraceuticals, Paints, Printing Ink, Adhesives, Soap manufacturing etc. As per the various industry reports, all these industries are expected to grow at steadily due to factors such as rising population, increase in disposable income and increasing spending on healthcare and nutrition products.

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Key Rating Weakness

Susceptibility of Fairchem's profitability to volatile raw material prices and fluctuations in forex rates: Vegetable oil distillate and acid oil are the main raw materials for Fairchem. These raw materials are by-products of soya and sunflower oils generated during the refining process. The prices of both these oils have remained volatile due to seasonality and its close linkages with international prices and forex rates. Further, Fairchem's exports comprise nearly 10-20% of its net sales over past two years. Hence, the profitability of Fairchem is susceptible to volatile agro based raw material prices and forex rates. However, Fairchem avails foreign currency borrowings for working capital purpose which provides a natural hedge and mitigates the forex risk to a certain extent.

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 limits the growth of the company. Further, Fairchem faces stiff competition from the low cost products from China especially in Dimer acid.

Product obsolescence and substitution risks: Companies like Fairchem 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, fairchem has expanded its R&D capabilities during last two years, which helps it to launch new derivatives of its existing products it 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. Hence, the continuous adherence to the prevailing pollution control norms would remain crucial from the credit perspective.

Analytical Approach: Standalone

Fairchem's management has indicated that Fairchem continue to be independently without any financial linkages with the subsidiary.

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Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company

Promoted by Mr Rajan Harivallabhdas in May 1985, Fairchem was formerly known as Adi Finechem Limited. Fairchem was jointly managed by Mr Harivallabhdas and his cousin, Mr Nahoosh Jariwala. During FY10 (refers to the period April 1 to March 31), 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 44.90% equity stake in the company from existing promoters. As on March 31, 2108, Fairfax India holds nearly 48.75% equity stake in the company.

Fairchem 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. Fairchem's manufacturing facility is located at Chekala village near Sanand, Gujarat with an installed capacity of 45,000 MTPA as on March 31, 2018.

(Rs. Crore)

Brief Financials	FY17 (A)	FY18 (A)
	Standalone	Standalone
Total operating income	185.49	239.02
PBILDT	23.74	36.58
PAT	9.06	19.40
Overall gearing (times)	0.82	0.75
PBILDT Interest coverage (times)	5.06	6.35

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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.

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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	24.94	CARE A; Stable
Fund-based - LT-Working Capital Limits	-	-	-	58.49	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	2.50	CARE A; Stable / 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 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-Term Loan	LT	24.94	CARE A; Stable	-	1)CARE A-; Positive (28-Jul-17)	1)CARE A- (Under Credit Watch) (10-Aug-16)	1)CARE A- (17-Nov-15) 2)CARE A- (21-Jul-15)
2.	Fund-based - LT-Working Capital Limits	LT	58.49	CARE A; Stable	-	1)CARE A-; Positive (28-Jul-17)	1)CARE A- (Under Credit Watch) (10-Aug-16)	1)CARE A- (17-Nov-15) 2)CARE A- (21-Jul-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	2.50	CARE A; Stable/ CARE A1	-	1)CARE A1 (28-Jul-17)	1)CARE A1 (Under Credit Watch) (10-Aug-16)	1)CARE A1 (17-Nov-15) 2)CARE A1 (21-Jul-15)

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