Eternis Fine Chemicals Limited

March 22, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A; Stable (Single A; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1 (A One) and Withdrawn
Total Bank Facilities	**0.00 (Rs. Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A; Stable/ CARE 1' [Single A; Outlook: Stable/ A one] assigned to the bank facilities of Eternis Fine Chemicals Limited (EFCL) with immediate effect on the basis of No Objection Certificate from the lenders.

The reaffirmation of ratings assigned to the bank facilities of Eternis Fine Chemicals Limited (EFCL), factor in the entrenched market position of EFCL in manufacturing of fragrance chemicals backed by the acquisition of Tennants Fine Chemicals Ltd (TFCL), a UK-based speciality chemicals producer in FY21. This is expected to result into diversification of product portfolio, enlarging geographical reach coupled with broadening the reputed clientele base. Furthermore, the rating also continues to derive comfort from resourceful and experienced promoter group, consistent growth in revenues coupled with healthy profitability margins, satisfactory financial risk profile and adequate liquidity.

The aforesaid mentioned strengths continue to be tempered 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.

Detailed description of the key rating drivers

Entrenched market position coupled with established clientele base

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 of FY21. 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. Besides, the acquisition of TFCL (renamed as Eternis Fine Chemicals UK Limited) will help EFCL further strengthen its presence in the F&F market, as EFCLUKL has 26,000 tonne per annum (TPA) and also will give access to various clients in various geographies.

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 international fragrance houses effectively and efficiently.

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.

Growth in scale of operations coupled with improvement in profit margins

In FY21, on consolidated basis, EFCL reported increase in Total operating Income (TOI) by 12.73% from Rs. 965.91 crore in FY20 to 1,089.41 crore in FY21 owing to healthy demand for aroma chemicals for sanitation products in light of Covid-19. However, Eternis is susceptible to changes in the prices of key raw materials, which are crude oil derivatives and are affected by fluctuations in crude prices. With reduction in prices of raw material couple (Cost of material consume reduced from 68% in FY20 to 63% in FY21) with better sales realisation, the operating margins have improved from 10.67% in FY20 to 15% in FY21. Further the PAT margins too have improved from 3.01% in FY20 to 3.50% in FY21 in line with PBILDT margin. This has led to improvement in cash accruals in FY21.

Satisfactory financial risk profile

The financial risk profile continues to remained satisfactory levels with overall gearing deteriorated to 1.64x as on March 31, 2021 as compared to 1.25x as on March 31, 2020 on account increase in long term loans in FY21 due to additional debt availed for funding of acquisition. Consequently, debt protection metrics remained satisfactory at levels in FY21 with interest coverage at 5.48x (vis-à-vis of 3.71x in FY20) and TDGCA to 7.60x (vis-à-vis of 6.35x in FY20). However, the promoters of the company has

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

infused funds by way of equity infusion to repay the majority part of the debt raised for the purposes of acquisition. Thus, with the equity being raised and reduction of debt of around Rs.218 crore, the capital structure is expected to improve.

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.

Analytical approach: Consolidated.

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

Applicable Criteria
Policy on Withdrawal of ratings
Criteria on assigning Outlook to Credit Rating
Financial ratios - Non Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Consolidation

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.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Total operating income	965.91	1,089.41	NA
PBILDT	103.05	163.53	NA
PAT	29.12	38.13	NA
Overall gearing (times)	1.25	1.64	NA
Interest coverage (times)	3.71	5.48	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

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

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

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		-	-	-	0.00	Withdrawn
Fund-based-Long Term		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based-Long Term	LT	-	-	-	1)CARE A; Stable (24-Dec-20)	1)CARE A; Stable (30-Dec-19)	1)CARE A; Stable (17-Sep-18) 2)CARE A; Stable (11-Jun-18)
2	Fund-based-Long Term	LT	-	-	-	1)CARE A; Stable (24-Dec-20)	1)CARE A; Stable (30-Dec-19)	1)CARE A; Stable (17-Sep-18) 2)CARE A; Stable (11-Jun-18)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (24-Dec-20)	1)CARE A1 (30-Dec-19)	1)CARE A1 (17-Sep-18) 2)CARE A1 (11-Jun-18)

* Long Term / Short Term

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 instrument	Complexity level
1	Fund-based-Long Term	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.*

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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