

**Press Release****Fortune Chemicals Ltd.****January 18, 2018****Ratings**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Rating</b>	<b>Rating Action</b>
Proposed Term Loan	45.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Proposed Long Term Fund based facilities- Cash Credit	5.00	IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
<b>Total</b>	<b>50.00</b>		

**Details of Facilities are in Annexure 1****Detailed Rationale**

The rating assigned derives strength from the long track record of the entity along with experienced promoters who have demonstrated equity support, debt free nature of the entity at present, established clientele and low working capital requirements.

The ratings, however, are tempered by moderate scale of operations and profitability, project risk associated with the food processing unit being set up by the company at Aurangabad, susceptibility to foreign exchange fluctuations, raw material prices and Government policies, and competitive and fragmented nature of the entity.

Timely completion of the project within the envisaged cost, improving profitability and leverage are the key rating sensitivities.

**List of Key Rating Drivers**

- Long track record.
- Experienced Promoters having demonstrated equity support
- Debt Free at present; albeit to change going forward
- Established Clientele, albeit with high concentration risk
- Low Working Capital Requirements

- Moderate Scale of Operation and Profitability
- Project Risk
- Risk Associated with Foreign Exchange Fluctuations
- Susceptibility to fluctuation in raw material prices and Government policies
- Competitive and Fragmented Nature of Industry

## Detailed Description of Key Rating Drivers

### Key Rating Strengths:

- *Long Track Record*

FCL has a long track record of around three decades in the wholesale trading segment. Its product portfolio at present comprises majorly agro commodities including processed foods, frozen foods, vegetable individually quick frozen (IQF) etc.

- *Experienced Promoters having demonstrated equity support*

FCL's day-to-day management rests in the hands of Mr. Kamlesh Pandey, having around two decades of experience in the food processing and trading segment. He is ably assisted by a team of experienced professionals.

The promoters have regularly infused equity in the company from time to time to support the operations and the company has never resorted to any external borrowings.

- *Debt Free at present; albeit to change going forward*

FCL does not have any debt on its books as on March 31, 2017 and it has never resorted to any external borrowing so far. The working capital requirement for its operations (entirely trading), is met by the promoters mainly by way of equity. However, going forward, the company proposes to set up its own food processing unit in Paithan Food Park, Aurangabad, for which it would avail term loan of Rs.45.00 crore. However, the overall gearing is expected to remain comfortable even after the project is completed.

- *Established Clientele, albeit with high concentration risk*

The company has a diversified clientele geographically arising out of its exports to countries like Germany, UK, Russia, Japan, South Korea, Oman, Singapore etc.

However, the top five customers contribute around 74% to the total topline, reflecting high concentration risk.

- *Low Working Capital Requirements*

Owing to the order backed nature of operations followed by the company, the carrying inventory is generally low and hence minimal funds are being blocked in working capital. The company generally trades based on back to back orders, thereby maintaining minimal inventory. Further it is able to avail a credit period of around 30 days from its suppliers and also extends 30 days credit to its customers, resulting in a very short operating cycle during the past few years.

### **Key Rating Weaknesses**

- *Moderate Scale of Operation and Profitability*

The company has achieved a stable topline of around Rs.300 crore over the past 3 years, which it has not been able to expand as the off-take from its customers has not increased. As is inherent in a trading industry, the profitability margins continue to remain thin, yet EBITDA & PAT margins improved to 2.17% and 2.09% respectively in FY17, up from 0.89% and 0.86% in FY16 on account of improved realisations.

- *Project Risk*

The company proposes to set up its own food processing unit in Paithan Food Park, Aurangabad, at a total estimated cost of Rs.67 crore, which is proposed to be financed at a debt-equity ratio of 2.07:1. The size of the project is substantial as compared to the present networth of the company. Successful commissioning of the same and post implementation viability are the key rating monitorables.

- *Risk Associated with Foreign Exchange Fluctuations*

Almost 100% of FCL's receivables are in Euro & USD which the company does not hedge. The company procures all its raw material requirement indigenously, hence the profits are subject to FOREX risk. However, as discussed with the management, in case

the exchange rate fluctuates adversely, the company is able to adjust the same in the FOB value of goods, thereby mitigating the risk to some extent.

- *Competitive and Fragmented Nature of Industry*

The agro foods processing and trading industry is highly fragmented, characterized by presence of large number of small players competing with few organised players. The entry barriers are low in the industry. The fragmented nature of the industry along with the intense competition puts pressure on the company's low operating profitability; however, the same is expected to improve as the entity is entering into manufacturing besides trading.

- *Susceptibility to fluctuation in raw material prices and Government policies*

With the company venturing into manufacturing of processed foods, the company may be exposed to volatile raw material prices on account of vagaries of nature. Also , fluctuation in market prices in the form of increase in Minimum Support Price by GOI may impact the procurement costs and thus the margins of agro processing companies.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Trading Companies

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **About the Company**

Incorporated in 1989, Fortune Chemicals Limited (FCL) is engaged, as of now, in the business of wholesale trading of commodities and merchandise. Initially, the company commenced operations by

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exporting pulses. Over the years, it has exported agro based commodities including processed foods, frozen foods, vegetable individually quick frozen (IQF) etc along with pharma and chemical commodities. The core trading activity of the company at present consists of mainly agro based commodities; whereas, trading in pharma products and chemicals constitute a small proportion. FCL engages in the trading of a particular commodity based on the demand and any pricing opportunity during a particular season. FCL exports its products to regions like South East Asia, Middle East, Europe, Africa and the US. At present, exports constitute its entire turnover. The company procures all its requirements indigenously from its 400 odd supplier base. Going forward, the company proposes to set up its own food processing unit in Paithan Food Park, Aurangabad, Maharashtra wherein it will purchase its raw material requirement through contract farming, process and then export the same. The day-to-day affairs of the entity are managed Mr. Kamlesh Pandey, having over 2 decades of industry experience in the agro processing industry. Till date, for carrying out its trading operations, the promoters have regularly infused equity and have not resorted to any external funding for the same.

### Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	305.69	306.54
EBITDA	2.73	6.66
PAT	2.64	6.23
Total Debt	NIL	NIL
Tangible Networth	13.56	32.59
EBITDA Margin (%)	0.89	2.17
PAT Margin (%)	0.86	2.09
Overall Gearing Ratio (x)	NA	NA

Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Nil

**Rating History for last three years:**

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Proposed Term Loan	Long Term	45.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	--	--	--
2.	Proposed Long Term Fund Based Limits-Cash Credit	Long Term	5.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually

widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Term Loan	Proposed	NA	July 2024	45.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)
Proposed Long Term Fund Based Limits- Cash Credit	Proposed	NA		5.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)