# Adani Wilmar Limited
## August 02, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Ratings | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 1,946.10 | CARE A+; Stable (Single A Plus; Outlook: Stable ) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 11,950.00 (Enhanced from 8,904.40) | CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus ) | Reaffirmed |
| **Total Bank Facilities** | **13,896.10 (Rs. Thirteen Thousand Eight Hundred Ninety-Six Crore and Ten Lakhs Only)** | | |
| Commercial Paper (Carved out)* | 500.00 | CARE A1+ (A One Plus ) | Assigned |
| **Total Short Term Instruments** | **500.00 (Rs. Five Hundred Crore Only)** | | |

**carved out of working capital limits*
***Details of facilities in Annexure-1***

**Detailed Rationale & Key Rating Drivers**
The ratings assigned to the bank facilities and short term instrument of Adani Wilmar Limited (AWL) takes into account the consistent growth in its scale of operations over past five years ended March 31, 2021 driven by growth in the sales volume of edible oil on the back of addition of refinery capacities and expansion in its distribution network. Increased focus on soft oils has also led to steady improvement in the operating margins of the company over FY17-FY20 (refers to the period from April 01 to March 31), with minor moderation in operating margins during FY21 due to exceptional surge in the prices of crude edible oils. Ratings revision also factors steady improvement in the capital structure marked by total outside liabilities to tangible networth steadily improving from 3.96 times as on March 31,2017 to 2.84 times as on March 31, 2021 on account of healthy cash flow from operations owing growth in cash accruals and lean operating cycle.
The ratings continues to factor in its strong parentage, being a part of Adani group and Singapore-based Wilmar group which is one of the leading agribusiness groups in Asia having linkages with Archer Daniels Midland (ADM- One of the World's largest agro commodity players), AWL's operational synergies with Wilmar group's businesses and a defined risk management policy being followed by the company for hedging its foreign exchange and commodity risk. The ratings also favorably factor AWL's strategically located port-based as well as inland edible oil manufacturing and storage facilities providing logistical advantages, widespread distribution network in the domestic market with AWL being a market leader in the edible oil segment with its well-established 'Fortune' brand, and its diversified product portfolio.
The above rating strengths are tempered by moderate capital structure and debt coverage indicators on account of high debt levels due to execution of large capex, working capital intensive operations and lower than envisaged returns from some of the completed projects due to demand slowdown from HoReCa segment. Further, the ratings continue to remain constrained by exposure to agro-climatic risks in procurement of raw materials along with its susceptibility to volatility in the crude edible oil prices as well as foreign exchange rates, regulatory risk associated with duty structure and its presence in a competitive edible oil industry leading to moderate profitability. The ratings continue to be constrained by relatively moderate scale of operations from other agro products segment albeit with growth in volumes during FY21.

**Key Rating Sensitivities:**
**Positive:**
- Rationalization of debt levels through infusion of long term funds leading to significant improvement in leverage indicators i.e. TOL/TNW of less than 2.00 times

**Negative:**
- Any large debt funded capex which is not envisaged, affecting debt coverage indicators of the company
- Deterioration in TOL/TNW i.e. > 3 times on a sustained basis
- Non-adherence to prudent risk management practices to manage commodity price and foreign exchange fluctuation risk.
- Significantly lower than envisaged sales volume and decline in PBILDT margins below 3.5% on sustained basis

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Steady growth in scale of operations albeit with moderation in profitability during FY21***

The total operating income (TOI) of AWL has grown at a CAGR of 16% for the past five years ended March 31, 2021 from Rs.17,773 crore during FY16 to Rs.37,185 crore during FY21. Further, during FY21 TOI registered a y-o-y growth of 24.92% over FY20 led by 8% volume growth in the sale of edible oil. The sales volume of edible oil increased from 26.38 lakh MT during FY20 to 28.48 lakh MT during FY21 led by growth of 22% in the sales of palm oil, followed by 15% and 16% growth in mustard and rice bran oil respectively. The soyabean oil registered a steady growth of 4% during FY21 while sunflower oil registered a de-growth of 11% during FY21 owing to rising prices.

Due to increased focus of AWL on high margin soft oils, the operating margins of the company has improved steadily from 2.96% during FY17 to 4.75% during FY20. However, the operating margins reduced by 91 bps during FY21 on account of exceptional surge in the prices of crude edible oil. The operating margins are envisaged to improve going forward on expectation of softening of edible oil prices due to expectations of good monsoon in the major edible oil exporting countries.

***Market leader in edible oil segment along with diversified product portfolio***

AWL continues to enjoy leadership position with single largest market share in domestic edible oil industry. AWL ranks on the top in soyabean oil, mustard oil and rice bran oil and ranks amongst top three players in palm oil and sunflower oil. The company has also established a wide network of distributors and stock points apart from more than 18 lakh retail outlets which provide cost competency for selling other agro products under same distribution channel.

The product portfolio of AWL consists of a wide range of products including edible oils, non-edible oil, de-oiled cake (DOC), vanaspati, specialty fats, other agro food products, oleo chemicals etc. During FY21, edible oil contributed to around 81% of the company's total sales with non-edible oil, vanaspati and by-products like oleo-chemicals contributing majorly to the remaining portion. Amongst edible oils; soyabean oil continues to be the major driver of revenue followed by palm oil and sunflower oil.

***Strong parentage and operational synergies with Wilmar group's businesses***

AWL derives strength from the parentage of both Adani Enterprises Limited (AEL; rated 'CARE A; Stable/CARE A1') and Wilmar Group. The parentage of AEL provides the company with the required financial flexibility for its business and technical/managerial resources owing to AEL's vast experience in trading and logistics business across the country. The Singapore based Wilmar Group is one of the leading vertically integrated agri-business groups in Asia with business interests including palm plantations, edible oil crushing and refining facilities, manufacturing of sugar, specialty fats, oleo-chemicals, fertilizers as well as grain processing and storage facilities. Archer Daniels Midland Co. (ADM); a Fortune 100 company; which is one of the world's largest agricultural processors of soya beans, corn, wheat and cocoa; holds about 20% in Wilmar International Ltd (WIL) further strengthening the parentage. The business of AWL has strong operational synergies with that of the Wilmar Group, which provides it with global linkages for its procurements, mainly crude palm oil, as well as marketing and distribution linkages for its edible oil products. WIL has also supported the operations of AWL through extension of unsecured line of credit. In addition to all the above, AWL enjoys the receipt of quality real-time price information and future estimates from WIL which has operations both in the producing regions as well as consuming regions.

***Strategically located port-based and inland manufacturing and storage facilities providing logistical advantages***

AWL's manufacturing facilities are located at the major procurement centers of its raw materials, i.e. seeds and crude edible oil, translating into lower logistics costs for procurement of materials and centralized storage facilities for crude as well as processed oil and other products. While the port based facilities of the company are engaged in refining of imported crude edible oil, mainly from Indonesia, Malaysia, Argentina, Brazil, Ukraine and USA which are major exporters of crude edible oil, such as palm, soya and sunflower; the inland facilities manufacture various refined oils and are located around the respective cultivation/procurement region.

***Well-defined risk governance structure***

AWL has a defined system for hedging of its commodity price exposure as well as foreign exchange risk where in risk tolerance limit and stop loss limits are set for various commodities across different hierarchy in the company and policy has been defined for hedging of foreign exchange exposure. This has largely enabled the company to maintain its PBILDT per tonne amidst volatile forex and commodity markets. The risk limits are defined as per the minimum hedge ratio as decided by the risk committee which comprises of top level management. Further, there is regular review of independent control processes as well as the presence of early warning mechanism to prevent potential breaches of the processes. AWL also derives benefits from its association with Wilmar group which is the largest player of palm plantation in the world and largest soya and rape seed crusher in China. AWL has access to real time market information due to its association with Wilmar group which provides it with competitive edge in decision making.

***Liquidity Analysis: Strong***

Average collection period of AWL remained stable at 12 days during FY21. Average inventory holding period remained range bound at 45 days during FY21.For its imports, AWL avails letter of credit leading to lean operating cycle. This results in higher requirement of non-fund based limits, the utilization of acceptances remained a major source of debt financing for AWL during FY21 with outstanding (net) acceptances constituting majority of total debt as on March 31, 2021. Nevertheless, AWL had finished goods inventory of Rs.2,378 crore as on March 31, 2021 (20 days); out of which large portion can be considered readily marketable inventory as against the outstanding acceptances. Further, the average utilization of fund-based limits remained low at 5% during the twelve months ended May 2021 while the non-fund based limits were fully utilized during twelve months ended May 2021. The cash flow from operating activities improved from Rs.873 crore during FY20 to Rs.1,063 crore during FY21. The free cash and bank balance of Rs.107 crore as on March 31, 2021.

**Key Rating Weaknesses**

***Leveraged capital structure; albeit on an improving trend***

The capital structure of AWL remained leveraged on account of the high debt levels due to execution of large capex in past. However, phasing out of on-going capex and healthy cash flow from operations have lead to steady improvement in capital structure marked by total outside liabilities to tangible networth improving from 3.96 times as on March 31, 2017 to 2.84 times as on March 31, 2021.

Despite, growth in its scale of operations during FY21, the total net debt of the company increased marginally from Rs.5,699 crore as on March 31, 2020 to Rs.6,192 crore as on March 31, 2021 due to healthy cash accruals. Relatively lower volatility in exchange rates as well as lower interest expense on foreign LC led to improvement in the interest coverage to 3.51 times during FY21. Going forward, leverage and debt coverage indicators are expected to improve due to management's stance of not incurring any large debt funded capex.

***Inherent project risk***

AWL had completed major green field capex in Hazira during September 2019. However, the company has not been able to generate envisaged return fully as Hazira plant continues to remain under utilized due to lower demand from HoReCa segment owing to COVID-19. Owing to past debt funded capex and limited benefits there of the fixed asset turnover ratio of AWL moderated to 8.54 times as on March 31, 2021.

AWL is currently undertaking capex of Rs.1,470 crore for expanding its capacity in oleo chemicals, mustard oil and other agro products in order to further diversify its revenue stream and improve its profitability. AWL has phased out this capex from two years to three years considering covid-19 pandemic with some savings in total project cost which is expected to provide cash flow cushion in the near term. However, AWL is exposed to inherent post implementation risk mainly in other agro products segment considering competition from large players and relatively new entrant position of AWL in other agro commodity segment. Going forward, AWL's ability to generate the envisaged benefits from completed projects mainly in other agro products and oleo chemical segment are crucial.

***Exposure to volatility in crude edible oil prices, forex rates and regulatory changes; albeit defined risk management policies followed by the company to mitigate the same***

AWL's profitability is exposed to sudden and sharp volatility in the prices of crude edible oil, which are in turn highly dependent upon various factors including cost of imports, agro-climatic conditions in the major cultivation regions as well as minimum support price (MSP) for various raw materials procured from the domestic market. At times, oilseed crushing operations become economically unviable due to higher oilseed prices in India compared to those available in the international markets.

Additionally, as AWL imports around 80% of its raw material requirements, it is also exposed to the volatility in foreign exchange rate, mainly United States Dollars (USD). However, a well-defined risk governance structure along with the regular review of the processes mitigates the risk to an extent.

***Stable outlook for edible oil market***

India is the largest importer of edible oil in the world. The edible oil consumption is expected to rise by 2% to 22.90 MMT during oil year 21 (OY; refer to the period from November to October) due to expected demand recovery particularly from HoReCa segment. The domestic production is expected to increase by 3% to 8.3 MMT during OY21 while import is expected to increase by 1% to 14.50 MMT during OY21.

**Analytical Approach**: Standalone factoring financial flexibility from strong parentage and operational synergies with Wilmar International Ltd.

**Applicable Criteria**
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Factoring Linkages in Ratings]
[CARE's Methodology for Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

**About the Company**
Incorporated in January 1999, AWL is an equal joint venture between Gujarat, India based Adani group and Singapore based Wilmar Group. As on March 31, 2021, the company had an installed capacity of 16,515 TPD of crude oil refining and 8,225 TPD of crushing with a combination of port based and inland manufacturing facilities at more than 22 locations across India.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) |
|---|---|---|
| Total operating income | 29,768 | 37,185 |
| PBILDT | 1,414 | 1,427 |
| PAT | 395 | 655 |
| Overall gearing (times) | 2.38 | 2.03 |
| Interest coverage (times) | 2.48 | 3.51 |

*A: Audited*
*Note: Net Debt is considered after excluding outstanding letter of credit acceptances /buyer's credit facilities to the extent of earmarked fixed deposit receipts for arriving at overall gearing*

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

**Any other information:** Not Applicable

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

**Covenants of rated Bank facilities/instrument:** *Detailed explanation of covenants of the rated bank facilities/ instruments are 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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | September 2027 | 1946.10 | CARE A+; Stable |
| Fund-based - LT/ ST-CC/PC/Bill Discounting | - | - | - | 1150.00 | CARE A+; Stable / CARE A1+ |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | - | - | - | 4887.50 | CARE A+; Stable / CARE A1+ |
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | - | - | - | 5912.50 | CARE A+; Stable / CARE A1+ |
| Commercial Paper-Commercial Paper (Carved out) | 7-364 days | - | - | 500.00 | 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 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 - LT-Term Loan | LT | 1946.10 | CARE A+; Stable | 1)CARE A+; Stable (07-Jul-21) | 1)CARE A; Positive (07-Sep-20) | 1)CARE A; Stable (19-Sep-19) | 1)CARE A; Stable (10-Sep-18) |
| 2. | Fund-based - LT/ ST-CC/PC/Bill Discounting | LT/ST | 1150.00 | CARE A+; Stable / CARE A1+ | 1)CARE A+; Stable / CARE A1+ (07-Jul-21) | 1)CARE A; Positive / CARE A1 (07-Sep-20) | 1)CARE A; Stable / CARE A1 (19-Sep-19) | 1)CARE A; Stable / CARE A1 (10-Sep-18) |
| 3. | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST | 4887.50 | CARE A+; Stable / CARE A1+ | 1)CARE A+; Stable / CARE A1+ (07-Jul-21) | 1)CARE A; Positive / CARE A1 (07-Sep-20) | 1)CARE A; Stable / CARE A1 (19-Sep-19) | 1)CARE A; Stable / CARE A1 (10-Sep-18) |
| 4. | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST | 5912.50 | CARE A+; Stable / CARE A1+ | 1)CARE A+; Stable / CARE A1+ (07-Jul-21) | 1)CARE A; Positive / CARE A1 (07-Sep-20) | 1)CARE A; Stable / CARE A1 (19-Sep-19) | 1)CARE A; Stable / CARE A1 (10-Sep-18) |
| 5. | Commercial Paper-Commercial Paper (Carved out) | ST | 500.00 | CARE A1+ | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of Bank facilities:**

| Name of the Instrument | Detailed explanation |
|---|---|
| A. Financial Covenants | Not Applicable |
| B. Non-Financial Covenants | Not Applicable |

**Annexure-4: Complexity Level of various facilities rated for this company:**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Term Loan | Simple |
| 2. | Fund-based - LT/ ST-CC/PC/Bill Discounting | Simple |

***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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