

Emami Agrotech Ltd

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,307.16 (Reduced from 1,401.26)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5,462.30 (Reduced from 5,540.30)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	6,769.46 (Rs. Six Thousand Seven Hundred Sixty-Nine Crore and Forty-Six Lakhs Only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Emami Agrotech Ltd (EAL) continues to draw comfort from the company been part of Emami group, rich industry experience and demonstrated financial support in the form of unsecured loans from promoters, established distribution network and well-known brand name, improvement in the financial performance in the fiscal year FY20 and H1FY21 (Provisional) marked by improvement in profitability, moderate capital structure and debt coverage indicators and favorable working capital cycle. The ratings, however, remains constrained by low profit margin due to low value addition and intense competition, significant dependence on the import of raw material exposing EAL to foreign exchange fluctuation risk, project implementation risk, raw material price volatility risk and regulatory risk associated with the edible oil industry.

Rating Sensitivities
Positive Factors:

- Growth in scale of operations as marked by total operating income of above Rs.18,000 cr on a sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 6% and 2% respectively on sustained basis.

Negative Factors:

- Deterioration in the capital structure as marked by overall gearing ratio (on net debt) above 1.5x.
- Decline in coverage indicators as marked by interest coverage ratio below 1.5x and net debt to GCA of above 7.50x on a sustained basis.
- Time or cost overrun or any offtake issues faced by the company on the ongoing project.

Detailed description of the key rating drivers
Key Rating Strengths
Strong group with significant fund infusion by the promoters

EAL belonging to the Kolkata based Emami group with Emami Ltd (rated CARE AA+; Stable/CARE A1+), being the flagship company. It is one of the leading manufacturers of herbal and Ayurveda products in personal, cosmetic and health care segments with market leadership in few of its products and the group has presence across diverse business segments. The promoters have demonstrated continuous support towards fund requirement of EAL and have funded ~Rs.880 crore in the form of unsecured loans as on March 31, 2020. In FY20, the promoters infused Rs.121 crore as unsecured loans. The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka are professionals with an extensive business experience.

Established distribution network, branding and marketing arrangement

EAL has major presence in West Bengal, Uttar Pradesh, Bihar, Jharkhand, Odisha, Manipur and Assam and also penetrated in Maharashtra, Tamil Nadu, Rajasthan, Punjab and Delhi through a strong network of 1,900 distributors, 35 depots and through direct reach to around 4,00,000 retailers. In FY20, EAL incurred Rs.131.65 crore towards marketing, selling branding expense to launch its product on pan-India basis.

Improved financial performance in FY20 & H1FY21

EAL's total operating income grew marginally by 3% in FY20 on account of higher average sales realization. PBILDT margins improved from 3.18% in FY19 to 4.10% in FY20 mainly due to higher treasury income coupled with better realisations. Further, Capacity utilization moderated in FY20 owing to lower than expected utilization from the Haldia plant which commenced operations from Jan 01, 2020 coupled with the outbreak of Covid 19 in the last quarter of the year.

In H1FY21, EAL reported a turnover of Rs 6,606 cr with a PBILDT of Rs 470 cr. PBILDT margin increased to 7.11% in H1FY21 on account of better operating margins coupled with restrictions on the import of refined edible oil, which benefitted the

company to take advantage of its recently enhanced installed capacity at Haldia, leading to increase in proportion of manufacturing sales which fetched higher margins as compared to trading sales.

Moderate capital structure and debt coverage indicators

Capital structure and debt protection metrics, as marked by overall gearing and Total debt/GCA has witnessed improvement in FY20 over FY19 on account of accretion to reserves, with higher levels of cash profits coupled with reduction in debt levels (mainly LC backed acceptances). Interest coverage ratio deteriorated in FY20 on mainly on account of increase in borrowing cost of the company, however, it remained moderate at 1.39x in FY20.

Favourable working capital cycle

EAL opens LC's for approx. six months for its raw material purchase and earmarks fixed deposits for availing the same. It also hold inventory (40-50 days), given the seasonality in edible oilseeds production and lack/non-availability of soybean/palm oilseeds in the domestic market. As the edible oil business is carried on cash and carry basis, the average collection period is low at 18 days in FY20. Thus, the average working capital cycle EAL is favorable at around 15 days (excluding LC backed Acceptances) in FY20.

Key Rating Weaknesses

Low profit margin in the industry due to low value addition and intense competition

The operating margins of edible oil refiners are generally low owing to low value addition involved in the business and intense competition. The industry is also highly fragmented with presence of large number of small-sized players and few large players in the branded segment. The intense competition in the industry also exerts pressure on the already stressed operating margin. In August 2019, EAL entered into the spices category with the brand 'Emami Healthy and Tasty Mantra'. Spices are a relatively high margined and expected to provide diversification to the company's existing edible oil business.

Project Implementation Risk

EAL is in the process of setting up a greenfield project of 3,000 TPD edible oil refinery in Kandala, Gujarat at an estimated cost of Rs.545 crores, to be funded through promoters' contribution of Rs.160 crores and a term loan of Rs.385 crores. The facility is expected to begin commercial production from April, 2021 (revised from Oct'20 estimated earlier).

In view of diversify its product profile and improve its profitability, EAL is setting up a 60 TPD Spice grinding and packaging unit in Jaipur at an estimated cost of Rs.73 crores, to be funded through promoters' contribution of Rs.23 crores and a term loan of Rs 50 crores.

EAL also proposes to set up 400 TPD Solvent Extraction Plant to manufacture Deoiled cake & Solvent Mustard oil by way of forward integration. The total cost project cost of project is Rs.40 crores, which is proposed to be funded by promoter contribution of Rs. 12 crores and Term loan of Rs. 28 crores.

The successful execution and achievement of desired level of capacity utilization shall remain crucial.

Further, EAL has commissioned the expansion project at Haldia location and the plant has commenced operations since Jan 01, 2020.

Significant dependence on import of raw material exposes EAL to foreign exchange fluctuation risk

Raw material cost accounted for 90%-95% of total cost of sales of EAL during the last three years. Major raw materials required for EAL are crude palm oil (CPO), crude soya oil (CSO) and crude sunflower oil. EAL is significantly dependent on imports for procurement of CPO (Indonesia and Malaysia), CSO (Latin America, Brazil and Argentina) and sunflower oil (Ukraine and Russia) in view of lack of availability in domestic market. As such, the company is also exposed to the risk of adverse movement in forex rates. However, EAL follows reasonable hedging policies for mitigation of forex risk.

Regulatory risk associated with edible oil industry

The price of palm oil imported by India from the largest exporters of the commodity in the world, i.e., Indonesia and Malaysia, are affected by the frequent duty structure changes done by the respective governments to protect their domestic industries. The price differential for carrying out refining operations in India depend upon the difference in duty between the export duty levied by the exporters on crude palm oil and refined palm oil and the import duty on the same by India. Further, Refined palm oil was placed under the 'Restricted List' with effect from 8th January 2020, which led to a drastic reduction in its import to India. Accordingly, EAL is exposed to adverse changes in regulatory and import/export duty structures based on actions of various government institutions.

Industry Prospects

The demand for edible oils in India was initially affected due to Covid -19 induced lockdown, which in turn impacted the imports of edible oils. Crude palm oil witnessed a sharp contraction in demand from bulk consumers. On the other hand, the demand for soft oils picked up as demand from household segment gained traction during lockdown. Further, with the

gradual easing of lockdown measures across the globe and decreasing supply chain disruptions, prices of crude oil have increased recently and the demand is expected to remain stable in the near term. The long-term outlook of edible oil demand in India is favourable on increasing population, increase in per capita consumption which in turn would be driven by changing lifestyles, growing urbanization, increasing proportion of middle-class population and steadily rising affluence levels.

Liquidity: Adequate

The liquidity position of the company remained adequate, as evident from healthy cash and liquid investments. EAL has total cash and bank balance (Inc. Margin Money) of about Rs.2,852 crores as on 31st Mar'20. The free cash and bank balance (excluding Margin money) stood at Rs.722 crores as on Mar'20. Average collection period of EAL remained stable at 18 days (17 days in FY19) and average inventory holding period was 41 days in FY20. Average utilisation levels for the past 12 months ending Nov '20 stands at ~84% for non-fund based limits. The company has a scheduled repayment obligation of around Rs.122 crores in FY21 and cash flows are expected to be sufficient to meet the same. EAL has neither opted for moratorium nor availed Covid 19 emergency line of credit in lines with the RBI guidelines. Moreover, unsecured loan infusion from promoters also aids to its liquidity needs.

Analytical approach: Standalone with linkages with Emami group

Applicable Criteria

[Criteria on assigning Outlook & Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Notching by factoring linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Emami Agrotech Ltd (EAL), belonging to the Emami Group of Kolkata, is engaged in refining of various oils (palm, soya, sunflower, rice bran & Vanaspati). Over the years, EAL has emerged as one of the leading players in the Indian edible oil industry, with dominant position in the Eastern region.

The oil processed/refined by EAL is sold under the brand name of 'Himani Best Choice' (in the popular segment) and 'Emami Healthy & Tasty' (in the premium segment). EAL entered the Vanaspati oil market with acquisition of the 60- year old brand 'Rasoi' in FY15. Moreover, for forward integration it has expanded the product portfolio to include more value added products used in bakery industry, sold under the brand name 'Bakemagic'. In August 2019, 'Emami Healthy and Tasty' entered into the spices category with the launch of its sub-brand Mantra. Currently, it has an installed capacity for edible oil refining plant for 8,400 TPD.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	12,526	12,941
PBILDT	398	530
PAT	125	125
Gross Overall gearing (times)	3.87	2.49
Net Overall gearing (times)*	1.70	0.95
Interest coverage (times)	1.46	1.39

A: Audited

*Net Overall gearing has been computed on the basis of total debt net of margin money.

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 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Jan 2027	1122.68	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	5382.30	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	80.00	CARE A2
Term Loan-Long Term	-	-	Dec 2023	134.48	CARE A-; Stable
Term Loan-Long Term	-	-	Aug 2022	50.00	CARE A-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1122.68	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20)	1)CARE A-; Stable (08-Jan-19)	1)CARE A-; Stable (17-Aug-17)
2.	Fund-based - LT-Term Loan	-	-	-	-	-	1)CARE A-; Stable (08-Jan-19)	1)CARE A-; Stable (25-Jan-18) 2)CARE A-; Stable (17-Aug-17)
3.	Non-fund-based - ST-Letter of credit	ST	5382.30	CARE A2	-	1)CARE A2 (08-Jan-20)	1)CARE A2 (08-Jan-19)	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	80.00	CARE A2	-	1)CARE A2 (08-Jan-20)	1)CARE A2 (08-Jan-19)	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)
5.	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)
6.	Term Loan-Long Term	LT	134.48	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20)	-	-
7.	Term Loan-Long Term	LT	50.00	CARE A-	-	1)CARE A-;	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				; Stable		Stable (08-Jan-20)		

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 the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple
4.	Term Loan-Long Term	Simple

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@careratings.com for any clarifications.

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