

Emami Agrotech Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	1,049.59 (Reduced from 1,127.74)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	6,505.00 (Enhanced from 5,800.30)	CARE A2+ (A Two Plus)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	7,554.59 (₹ Seven thousand five hundred fifty four crore and fifty nine lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Emami Agrotech Limited (EAL) continue to derive strength from the company being a part of the established Kolkata-based Emami group with demonstrated fund-support to EAL in the past. EAL continues to have sizeable scale of operations in the edible oil industry and has gradually increased its capacity over the years with the latest addition being 3,000 ton per day (TPD) edible oil refining unit in Kandla, Gujarat in July 2021. The company has established brands 'Himani' and 'Emami' and continues to have a strong distribution network for its products with presence in more than 15 states across the country. The ratings also factor in its favourable working capital cycle.

The ratings take note of the reduced profitability of the company in FY22 (refers to the period April 1 to March 31) and operating losses incurred in H1FY23 due to the high volatility in the edible oil industry specially in the current year which was an industry-wide phenomena. Apart from the significant volatility in raw material procurement prices and unfavourable movement in the domestic market as against the hedged positions on commodity exchange, the profitability has been impacted due to the inability to ramp up production. CARE Ratings Limited (CARE Ratings) believes that the deterioration in profitability is an extraordinary event due to market dynamics and going forward with gradual stabilization of prices and improvement in demand, the profitability is expected to improve.

The ratings continue to remain constrained by the low profit margin in the industry due to limited value addition and intense competition. Furthermore, the significant dependence on import of raw materials exposes the company to foreign exchange fluctuation risk, commodity price fluctuation risk and regulatory risk. The long presence of the company in the industry and its stated risk management policies mitigate the risk to an extent.

CARE Ratings has withdrawn the rating assigned to certain bank facilities of EAL with immediate effect as the company has repaid the aforementioned facilities in full and there is no outstanding against the same.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Volume-driven growth in scale of operations on a sustained basis through greater diversification.
- Improvement in PBILDT margins to around 6% and PAT margin to around 2% on a sustained basis.
- Improvement in Net debt/GCA to around 5x and total outside liabilities/tangible network (TOL/TNW) to below 3x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in PBILDT interest coverage to below 1.5x and/or TOL/TNW remaining above 4x on a sustained basis.
- Deterioration in profitability margins with PBILDT margin going below 3% and PAT margin going below 1% on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established promoter group with demonstrated fund support: EAL belongs to the Kolkata-based Emami group with

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

Emami Limited (rated 'CARE AA+; Stable/ CARE A1+') being the flagship company of the group. The group 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 presence across diverse business segments. The promoters have demonstrated continuous support towards fund requirement of EAL and funded around ₹938 crore in the form of unsecured loans as on March 31, 2021. With effect from October 01, 2021, the unsecured loans were converted into zero coupon optionally convertible debentures. Furthermore, ₹150 crore was infused as equity in FY21 to fund EAL's onward investment in its overseas subsidiary. CARE Ratings believes that the group will continue to extend support to EAL as and when required.

In November 2022, the company raised equity of ₹30 crore from an investor.

Established distribution network supported by branding and marketing arrangement: The product portfolio of EAL consists of a wide range of products including edible oils, de-oiled cake (DOC), vanaspati, specialty fats, bakery products, bio-diesel etc. However, more than 95% of the total sales is contributed by edible oil and balance by other products. Amongst edible oils, palm oil continues to be the major driver of revenue followed by soya oil.

EAL has major presence in West Bengal, Uttar Pradesh, Bihar, Jharkhand, Odisha, Madhya Pradesh, Manipur, Assam and has also penetrated in Maharashtra, Tamil Nadu, Karnataka, Telangana, Haryana, Rajasthan, Punjab and Delhi for its edible oil business through a strong network of 2,200 distributors, 45 depots and through direct reach to 4,00,000 outlets. In FY22, EAL incurred ₹114.17 crore vis-à-vis ₹116.26 crore in FY21 towards marketing, selling branding expense to launch its product on pan-India basis. The major brands under which EAL sells its products are 'Emami Healthy & Tasty', 'Himani', 'Rasoi No.1' and 'BakeMagic'. In FY22, 55% of the sales of the company was generated from branded sales. The company has launched new products "Mantra Masala" & "Soyabean Ultra Lite Oil" and has increased its geographical presence by adding new depots, modern trade channels and e-commerce partners.

In view of the increasing sales and better margins, the company has set up a 60 TPD spice grinding and packaging unit at Jaipur, Rajasthan which started operations in June 2022 at a project cost of ₹72.84 crore.

EAL is also setting up a 400 TPD solvent extraction plant along with 50 TPD refinery unit at Jaipur, Rajasthan to manufacture de-oiled cake and solvent mustard oil by way of forward integration to enable the company to process the oil cake which is produced by the existing Jaipur unit operations while manufacturing Kacchi Ghani Mustard Oil. The total cost of the project is estimated at ₹60 crore and it is expected to be completed by March 2023.

Favourable working capital cycle: EAL opens Letter of Credits (LCs) for approximately six months for its raw material purchase and earmarks fixed deposits for the same. Further, it is required to hold inventory (50-60 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 cash and carry in nature, the average collection period is low at 6 days in FY22. However, with reduction in average creditors days, the operating cycle stood at 37 days in FY22 vis-à-vis 13 days in FY21. On inclusion of creditors in the form of LC acceptances, the average working capital cycle stood negative at 33 days in FY22 (negative 60 days in FY21).

Stable demand outlook for edible oil industry: 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 middleclass population and steadily rising affluence levels. The demand was affected in FY22 due to the second and third waves of Covid-19 pandemic and consequent imposition of lockdown and various restrictions across the globe that led to supply chain disruptions. In the current year, there has been significant volatility in the edible oil industry with sudden changes in the raw material prices. However, long term demand outlook remains stable.

Liquidity: Adequate

EAL had total cash and bank balance of ₹2,039 crore (including margin money of ₹1,742 crore) as on March 31, 2022. The company does not have significant fund-based working capital limits apart from an overdraft limit of ₹20 crore which is fully unutilized. For its imports, EAL avails letter of credit. This results in higher requirement of non-fund-based limits, the utilization of which remained high at around 82% during the trailing 12 months period ended October 2022.

The company has scheduled repayment obligation of ₹196.53 crore in FY23. Though the cash accruals in FY23 are not likely to be sufficient to meet its term debt repayment obligations, it had free cash and cash equivalents of ₹296.66 crore as on March 31, 2022. Also, the company raised equity of Rs.30 crore in November 2022. It has already tied up the debt component for funding the ongoing solvent extraction project and the commitment from internal accruals for capex stands limited at around ₹20 crore in FY23 and ₹5 crore in FY24. Financial flexibility due to EAL being a part of the Emami group and need-based fund infusion from the group also aids its liquidity.

Key Rating weaknesses

Moderation witnessed in capacity utilisation (CU): CU witnessed a decline from 52% in FY21 to 44% in FY22 on account of reduction in CU for Krishnapatnam plant along with lower CU for the newly commenced Kandla unit. Also, the Haldia unit which began production at increased capacity from January 01, 2020 is yet to ramp-up its production (CU for Haldia unit stood at 47% during FY22). The CU for Kandla unit remained lower on account of initial teething trouble which led to closure of the plant for some period and additional capex of around ₹35 crore required to be incurred. The successful ramp-up of the newly established Kandla unit is yet to be seen and shall remain a key rating monitorable.

Moderation in financial performance in FY22 and H1FY23: EAL's consolidated total operating income (TOI) witnessed a growth of 27% y-o-y in FY22. Despite decline in sales volume due to the second and third waves of the pandemic, the revenue witnessed growth on account of significant rise in average realisation of both refined palm oil and refined soya oil. The raw material cost witnessed significant increase in FY22 which led to increase in finished goods prices. However, profitability witnessed a dip in FY22 on account of the inability to fully pass on the increase in raw material cost and lower CU.

Despite significant reduction in capital costs, PAT margin also witnessed decline in FY22 compared with FY21 on account of decline in operating margins. The company has written back GST/entry tax liabilities of about ₹150 crore in FY22 which provided cushion to the PAT margin.

In H1FY23, the standalone TOI of the company witnessed growth of 14% y-o-y driven by growth in both quantity as well as volume. However, the company incurred loss at PBILDT level during the period on account of the sudden crash in prices of edible oil in Q2FY23. There has been significant volatility in crude palm oil prices with the geopolitical tensions prevailing from Q4FY22 and ban imposed on export of crude palm oil by Indonesia in end of April 2022 which was lifted in end of May 2022. Due to government intervention, easing of supply and correction in prices in the global markets, the domestic selling prices declined sharply which resulted in significant inventory losses in H1FY23. EAL enters into forward sale contract on the commodity exchange immediately on entering into raw-material procurement contract, in order to mitigate itself against the price volatility risk. However, opposite movement in the exchange and the physical sale market for soya oil also impacted profitability. Also, the CU for its various manufacturing units remained lower than 50% which further led to under absorption of fixed costs.

Going forward, with increased demand and gradual stabilization of prices, the profitability is expected to improve in H2FY23. Also, the branded business of the company, which generates higher realisations, has witnessed an increase in H1FY23 wherein it grew to 55% and 60% of the total sales in terms of volume and value respectively and witnessed a growth of around 5% from FY22.

Moderation in capital structure and debt coverage indicators: The total debt witnessed an increase as on March 31, 2022 compared with March 31, 2021 on account of increase in acceptances with significant increase in raw material prices. Against the acceptances, the company has margin money in the form of fixed deposits and on considering the same, net overall gearing stood at 1.69x as on March 31, 2022 (1.40x as on March 31, 2021). Overall gearing on gross debt basis stood at 2.65x as on March 31, 2022 as against 2.86x as on March 31, 2021.

The promoters have infused significant amount of unsecured loans over the years amounting to ₹938 crore which are subordinated to bank debt and converted into optionally convertible debentures in FY22. Further, in November 2022, the company raised equity of ₹30 crore from an investor.

The debt coverage indicators witnessed deterioration in FY22 compared with FY21 on account of both increase in total debt along with decline in operating profits and GCA. TDGCA deteriorated from 10.91x as on March 31, 2021 to 15.45x as on March 31, 2022. Net debt/GCA increased to 9.84x as on March 31, 2022 from 5.31x as on March 31, 2021. In FY23, the same is expected to continue to remain very high on account of the expected decline in profitability. However, from FY24 onwards, the same is again expected to improve.

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 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 operating margin. However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase which bodes well for branded refined oil players.

In August 2019, EAL entered into the spices category with the brand 'Emami Healthy and Tasty Mantra'. Spices business is relatively high profit margin and expected to provide diversification to the company's existing edible oil business; though the pace of its pick up is relatively slow. The company had also launched soya chunks in FY21.

Significant dependence on import of raw material exposes EAL to foreign fluctuation risk: Raw material cost accounted for around 95%-96% of total cost of sales of EAL during the last three years. Major raw materials required by EAL are crude palm oil (CPO) and crude soya oil (CSO). EAL is significantly dependent on imports for procurement of CPO (from Indonesia and Malaysia) and CSO (from Latin America, Brazil and Argentina) in view of lack of availability in domestic market. Accordingly, EAL is exposed to foreign fluctuation risk. In order to safeguard itself from forex risk, EAL hedges its payables for the imports of raw materials at the time it sells its finished goods.

Volatile raw material and finished goods prices: The price of the domestic oil is directly dependent on the international crude edible oil price. EAL is exposed to volatility in raw-material prices as the cash conversion cycle from procurement of raw-material to realization from sale of processed edible oil is estimated to be around six months. Accordingly, EAL enters into forward sale contract on the commodity exchange, immediately on entering into raw-material procurement contract, in order to mitigate the aforementioned price volatility risk. However, in the current year, the sharp volatility within a short span of time has led to losses/dip in profitability for the edible oil industry in Q2FY23. Severe supply disruption in the global market during April-May 2022 due to both Russia-Ukraine war and imposition of sudden ban on palm oil exports by Indonesia resulted in soaring of edible oil prices to new highs by May 2022.

Edible oil prices eased substantially after Indonesia lifted palm oil export ban in May 2022 following protests from farmers in Indonesia.

Both CPO and CSO prices have witnessed a sharp decline from May-June 2022 to September 2022 which led to losses to EAL on account of high inventory in hand.

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 CPO and RPO and the import duty on the same by India.

In order to protect the domestic players from cheap edible oil imports, government imposes import duty on both crude and refined oils. Accordingly, EAL is exposed to adverse changes in regulatory and import/export duty structures.

Analytical approach: Consolidated

The analytical approach is changed from standalone to consolidated considering that its wholly-owned subsidiary, Emami Biotech (Singapore) Pte Ltd (EBSPL), is engaged in similar line of business of trading, import, export of palm oil and other by-products and extend related services. Also, EAL has provided its corporate guarantee for debt facilities availed by EBSPL.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

EAL, belonging to the Emami group of Kolkata, is engaged in refining of various edible oils (palm, soya, sunflower, rice bran, mustard & vanaspati). Over the years, EAL has emerged as one of the leading players in the Indian edible oil industry with a pan-India presence and 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 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' – a range of 100% natural and fresh spices, masalas and tastemakers. The company has an installed capacity of 11,400 TPD refinery for edible oils.

Brief Consolidated Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)*
TOI	14,599	18,566	10,015
PBILDT	723	325	-320
PAT	224	165	-486#
Overall gearing (times)	2.86	2.65	NA
Adj. Overall gearing (times) \$	1.40	1.69	NA
TOL/TNW	4.25	3.68	NA
Interest coverage (times)	2.26	1.74	NM

A: Audited; UA: Unaudited; NA: Not available, NM: Not meaningful

*Standalone financials of EAL; #PBT \$ 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 Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	1023.50	CARE A-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	80.00	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	6425.00	CARE A2+
Term Loan-Long Term		-	-	December 2023	26.09	CARE A-; Stable
Term Loan-Long Term		-	-	-	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	1023.50	CARE A-; Stable	-	1)CARE A-; Stable (07-Dec-21)	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (08-Jan-20)
2	Non-fund-based - ST-Letter of credit	ST	6425.00	CARE A2+	-	1)CARE A2+ (07-Dec-21)	1)CARE A2 (06-Jan-21)	1)CARE A2 (08-Jan-20)
3	Non-fund-based - ST-Bank Guarantee	ST	80.00	CARE A2+	-	1)CARE A2+ (07-Dec-21)	1)CARE A2 (06-Jan-21)	1)CARE A2 (08-Jan-20)
4	Term Loan-Long Term	LT	26.09	CARE A-; Stable	-	1)CARE A-; Stable (07-Dec-21)	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (08-Jan-20)
5	Term Loan-Long Term	LT	-	-	-	1)CARE A-; Stable (07-Dec-21)	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; 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 Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Bank Lender Details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings 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.

Contact us
Media contact

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Mamta Muklania

Phone: +91-33-4018 1651

E-mail: mamta.khemka@careedge.in

Relationship contact

Name: Lalit Sikaria

Phone: +91-33-4018 1607

E-mail: lalit.sikaria@careedge.in

About us:

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