E.I.D. Parry (India) Limited

July 06, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	650.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**650.00 (₹ Six hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the commercial paper (CP) issue of E.I.D. Parry (India) Limited (EID) continues to factor in the benefits derived from being part of the Murugappa group, established track record of EID in sugar industry with integrated nature of operations, geographically diversified presence of manufacturing units to an extent and significant value of investments held. The rating also factors in the healthy growth in the total operating income (TOI) and profitability margins during FY22 (refers to the period April 1 to March 31) along with considerable improvement in the overall financial risk profile and strong liquidity position. The rating is, however, constrained by the susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the industry and EID's exposure to Parry Sugar Refinery India Private Limited (a subsidiary), whose performance remains weak albeit improved during FY22 by turning operationally profitable.

Rating sensitivities

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

- Not applicable

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

- Deterioration in the overall gearing beyond 0.50x.
- Decrease in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin below 8% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and benefits derived from being part of the Murugappa group: EID is a part of the diversified Murugappa group, one of the India's leading conglomerates with focus towards various businesses, including engineering, abrasives, finance, general insurance, cycles, sugar, farm inputs, fertilizers, plantations, bio-products and nutraceuticals. Headquartered in Chennai, few of the major companies of the group include Tube Investments of India Ltd, Carborundum Universal Ltd, Cholamandalam Investment & Finance Company Limited (rated 'CARE AA+; Stable'), Cholamandalam MS General Insurance Company Ltd, Coromandel International Ltd (CIL), Coromandel Engineering Company Ltd, E.I.D. Parry (India) Ltd, Parry Agro Industries Ltd., and Wendt (India) Ltd. EID, being a part of the Murugappa group, enjoys financial flexibility and benefits with respect to raising funds and has a brand attached within the farming community.

Established and long track record in the sugar industry with integrated nature of operations and geographically diversified presence of manufacturing units: EID is an integrated player engaged in the manufacturing of sugar, industrial alcohol, generation of power through sugar (cogen) and nutraceuticals. As on March 2022, EID has sugarcane crushing capacity of 43,400 TCD, co-generation capacity of 160 MW and distillery capacity of 297 KLPD across units located at Nellikuppam, Pugalur, Pudukottai, Pettavathalai and Sivaganga in Tamil Nadu; Ariyur in Puducherry; Sankili in Andhra Pradesh; and Bagalkot, Haliyal and Ramdurg in Karnataka. The distillery unit at Bagalkot has become fully operational during FY22, enhancing the company's distillery capacity and adding to the company's ethanol manufacturing facility to take advantage of the government's ethanol blending policy. The company also has two nutraceuticals factory and four R&D centres located at Tamil Nadu. The company is setting up 120 KLPD multi-feed distillery at Sankli. It is in progress and expected to be commissioned by December 2022. Integrated nature of operations with revenue from power division, distillery division along with nutraceuticals aids the company to an extent to mitigate volatility associated with sugar prices.

Increase in the TOI and PBILDT margin during FY22: During FY22, the revenue from operations was ₹2,496 crore, an increase of 23% compared with ₹2,024 crore of the previous year. The sugar business, which constitutes about 73% of the sales, witnessed a growth of 23% on the back of increase in the sales volume. The performance during the year has improved over the previous year because of encouraging international sugar space and smoothened disruptions caused by the pandemic. The PBILDT margin stood at 19.71% in FY22 as against 9.45% in FY21 largely on account of healthy volume growth and improved sales realisation from sugar and distillery, apart from the various cost optimisation and process efficiency measures undertaken by the company. The company reported profit after tax (PAT) of ₹284 crore during FY22 vis-à-vis ₹865 crore during FY21. The reported PAT level appears to be on lower side because FY22 PAT includes exceptional loss of ₹14 crore arising from

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

the sale of Plant and Machinery in Puducherry unit as compared to the exceptional gain of ₹715 crore in the previous year arising from sale of 4% stake in CIL net off Impairment, and Pudukottai asset transfer expenses. Nevertheless, at absolute terms, even after making above adjustments, the PAT levels during FY22 has improved due to volume play coupled with reduction in the interest cost.

Comfortable financial risk profile: The capital structure of EID continues to remain comfortable with overall gearing of 0.05x as on March 31, 2022 (0.23x as on March 31, 2021). The debt coverage indicators, interest coverage ratio and total debt to gross cash accruals (TD/GCA) stood comfortable at 10.67x (PY-2.09x) and 0.35x (PY-0.51x), respectively, during FY22 due to significant increase in the profitability and cash accruals. Moreover, in April 2021, the company has repaid the NCD of ₹100 crore, further bringing down the debt levels. The financial risk profile is expected to remain comfortable in FY23.

Investments in the subsidiary, CIL, providing regular dividend inflow: EID derives financial flexibility from being the holding company for CIL. During FY22, CIL reported profit after tax (PAT) of ₹1,412 crore (PY: ₹1,312 crore) on a total income of ₹19,088 crore (PY: ₹14,156 crore). As on June 23, 2022, market capitalisation of Coromandel stood at ₹27,204 crore. Its 56.4% stake in CIL, ie, 165,455,580 shares held is valued at around ₹15,420 crore as on June 23, 2021. CIL has a healthy track record of dividend payout. Since FY17, EID has been receiving dividend income on a regular basis from CIL aiding the overall revenues and profitability of the company. For the recent years, EID received dividend income of ₹305 crore in FY21 and ₹199 crore in FY22 from CIL. The proceeds from the stake sale in FY21 and dividend income was used to bring down the debt of the company and for general corporate purposes. The total long-term debt has come down to ₹80.57 crore as on March 31, 2022, compared with ₹179.50 crore as on March 31, 2021.

Stable industry outlook: The growth in international sugar prices have definitely augured well for Indian sugar exports amid glut situation in the domestic market. Tight sugar supply situation in the global market has pushed up the international sugar prices to four-year high. The firmness in the international prices is expected to continue, unless sugar output from the other major sugar producing and exporting nations starts coming in for the next season 2022-23. The recent announcement of withdrawal in export subsidy from October 2021 on account of higher international prices gives an indication of an expectation that the sugar exports from India beyond 9.9 million tonnes during the current SS 2021-22. Any increase in the exports above 6 million tonnes would mean reducing the closing stock substantially for SS 2021-22 to result in sharp improvement in the domestic sugar prices going forward. The closing inventory for September 2022 is expected to be at 6.7 MMT Vs 8.9 MMT in September 2021. The closing stock is sufficient for 3.2 months of consumption. The government did not create any buffer stock in SS2021 and SS2022 as sought by the industry.

Key rating weaknesses

Exposure to subsidiary companies, mainly Parry Sugar Refinery India Private Limited (PSRIPL) which is yet to operationally stabilise: The company has total equity investments in subsidiaries/joint ventures (JVs) to the extent of ₹842 crore (PY: ₹824 crore) as on March 31, 2022. Of these, majority of the investments are in CIL (₹112 crore), PSRIPL (₹584 crore) and USN (₹82 crore). Although PSRIPL has repaid ₹200 crore of the inter corporate loan taken from EID, the financial performance of PSRPL remains weak as the company has been incurring losses since past three years. During FY22, PSRIPL has turned operationally positive and thus any further improvement in the performance of PSRPL would result in restricting EID's financial support to the company.

Susceptibility of the revenues and profitability to the demand-supply dynamics with cyclical and regulated nature of sugar industry: Sugar industry is a highly regulated industry. This coupled with cyclical nature of sugar industry and volatility in the prices results in significant impact on operating performance of sugar companies. While the input prices are driven by the government, sugar prices are volatile and based on open market prices. However, with introduction of monthly release mechanism in June 2018 and MSP, volatility in sugar prices has declined since then. Regulatory mechanisms and dependence on monsoons for cane availability have also rendered the sugar industry cyclical.

Liquidity: Strong

The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis repayment obligations. The company makes payment to the farmers within the stipulated time and sells to sugar institutional customers on 30-35 days credit and to small customers on cash basis. The farmers usually discount the cane bill dues with banks where the cane payment is assured by EID to the banks subsequently. The banks give usance period of one year for discounted bills and gets benefit of priority sector lending. This is reflected in high creditor period for EID and low working capital utilisation. The average working capital utilisation has been low at 25% for the last 12-month period ended May 2022. Furthermore, EID has about ₹21 crore total scheduled debt repayment in FY23 against the expected cash accruals of about ₹450 crore to ₹480 crore. The company has capex plans of about ₹285 crore and ₹230 crore during FY23 and FY24, which is expected to be majorly funded through internal accruals and partly through term debt. Considering the cushion available in the form of unutilised working capital limits and strong parentage being part of the Murugappa group, it is expected that the debt obligations could be met comfortably.

Analytical approach: Standalone; factoring in support from the Murugappa group, since EID Parry is an integral part of the Murugappa group representing the group's presence in the sugar industry. The group is also expected to extend financial support in case of exigencies. The analytical approach also factors in the support extended by EID Parry to its subsidiaries.

Applicable criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology- Manufacturing Companies](#)
[Rating Methodology - Sugar Sector](#)
[Rating Methodology- Consolidation and factoring linkages](#)

About the company

E.I.D Parry India Limited (EIL) is part of the Chennai-based Murugappa group. The group has diverse business activities that include abrasives, automotive components, cycles, sugar, farm inputs, fertilizers, construction, power systems, NBFC and bio-products. EIL is into sugar manufacturing with capacity of 43,400 Tons of Cane per Day (TCD) spread across six units in Tamil Nadu, Karnataka and Andhra Pradesh. The company also has co-generation capacity of 160 megawatt (MW) and distillery capacity of 297 kilo litre per day.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	2,047.26	2,772.22	NA
PBILDT	193.54	491.82	NA
PAT	864.86	283.50	NA
Overall gearing (times)	0.23	0.05	NA
Interest coverage (times)	2.09	10.67	NA

A: Audited, NA: Not applicable

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone)	Proposed	-	-	-	650.00	CARE A1+

Annexure-2: Rating history for the 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	Commercial paper-Commercial paper (Standalone)	ST	650.00	CARE A1+	-	1)CARE A1+ (02-Nov-21)	1)CARE A1+ (12-Nov-20)	1)CARE A1+ (14-Feb-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	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 instruments: 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.

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