

Emami Agrotech Limited
December 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	1,152.74 (Reduced from 1,307.16)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5,800.30 (Enhanced from 5,462.30)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	6,953.04 (Rs. Six thousand nine hundred fifty three crore and four lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating assigned to the bank facilities of Emami Agrotech Limited (EAL) takes into account the improvement in the short-term debt coverage indicators of the company. The interest coverage ratio improved from 1.39x in FY20 (refers to the period April 1 to March 31) to 2.12x in FY21. Going forward as well, its interest coverage is expected to remain adequate. Furthermore, the operating cycle of the company continued to remain lean at 17 days in FY21.

The ratings 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 in the form of unsecured loans. A large part of these loans are subordinated to its bank debt.

EAL has sizeable scale of operations in the edible oil industry with gradual addition of capacity over the years. The completion of the 3,000 ton per day (TPD) edible oil refining project in Kandla, Gujarat in July 2021 has further augmented its capacity, though the ramp up of capacity is yet to happen. EAL has established brands 'Himani' and 'Emami' and continues to have a strong distribution network for its products with presence in 14 states across the country. The ratings take note of its moderate capital structure and improvement in profitability margins of the company in FY21. Though the profitability has moderated in H1FY22 due to significant volatility in raw material procurement prices during the period and impact of the second wave of Covid-19 pandemic on demand in Q1FY22, it is expected to improve in H2FY22.

The ratings, however, 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.

Rating Sensitivities**Positive Factors – Factors that could lead to positive rating action/upgrade:**

- Volume-driven growth in scale of operations marked by total operating income (TOI) of above Rs.18,000 crore 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 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 overall gearing ratio (on net debt) basis going above 1.5x on 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 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 have funded around Rs.938 crore in the form of unsecured loans as on March 31, 2021, out of which Rs.57 crore was infused in FY21. Furthermore, Rs.150 crore was infused as equity in FY21 to fund its onward investment in its overseas subsidiary.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The promoters of the group, Mr R S Agarwal and Mr R S Goenka are professionals with an extensive business experience.

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 etc. However, edible oil contributed around 96% of the company's total sales with vanaspati, bakery and other by-products contributing the remaining portion. 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, Manipur and Assam and has also penetrated in Maharashtra, Tamil Nadu, Telangana, Haryana, Rajasthan, Punjab and Delhi for its edible oil business through a strong network of 1,900 distributors, 35 depots and through direct reach to 3,50,000 outlets. In FY21, EAL incurred Rs.117.81 crore vis-à-vis Rs.131.65 crore in FY20 towards marketing, selling and 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', 'BakeMagic', etc.

In view of the increasing sales and better margins, the company is proposing to set up 60 TPD spice grinding and packaging unit in Jaipur, Rajasthan at a cost of around Rs.73 crore which is expected to start operations by April 2022. Further, EAL plans to set up 400 TPD Solvent Extraction Plant to manufacture de-oiled cake and solvent mustard oil as forward integration for processing the oil cake which is produced by the existing Jaipur unit operations while manufacturing Kacchi Ghani Mustard oil. The total cost of the project cost is estimated at around Rs.40 crore. The company is yet to start implementation of the project.

Improved financial performance in FY21; albeit moderation witnessed in H1FY22

EAL has sizeable scale of operations and has gradually added to its edible oil refining capacity over the years. The company's TOI witnessed a growth of about 13% y-o-y in FY21. Despite decline in sales volume due to disruptions caused by the Covid-19 pandemic, the revenue witnessed growth on account of significant rise in average realisation of both Refined Palm Oil (RPO) and Refined Soya Oil (RSO). The increase in realisation was driven by the significant increase in raw material cost in FY21. PBILDT margin witnessed improvement on account of pass through of the increased raw material cost along with significant reduction in foreign exchange loss. Also, during the first lockdown phase (majorly Q1FY21), the company saved on its advertisement and administration related expenses and was also able to earn higher margins in the absence of competition from local players during the lockdown phase. PAT also witnessed an increase from Rs.125 crore in FY20 to Rs.183 crore in FY21 with increase in operating profits.

In H1FY22, the TOI of the company witnessed a growth of 33% y-o-y with continued increase in the average realisation of RPO and RSO. The operating margin, however, declined as compared to H1FY21 due to significant volatility in raw material prices. Also, the newly setup 3,000 TPD Kandla unit which began operations from August 2021 has not been able to run at full capacity and recover its fixed overhead costs. Further, advertisement cost and administration related costs were higher in H1FY22 as compared to H1FY21. Going forward, with envisaged stabilisation and ramp-up of the operations at Kandla plant and passing on of the raw material price increase, the operating profits are expected to improve. Further, interest cost has declined in H1FY22 on account of reduction in interest rates.

Moderate capital structure and debt coverage indicators

The overall gearing of EAL stood at 1.29x (net of cash margin on borrowings) as on March 31, 2021. The capital structure remains moderate despite debt availed to finance the recent capacity expansions (Rs.385 crore for Kandla project). The promoters have also infused significant amount of unsecured loans out of which Rs.881 crore is subordinated to bank debt. The overall gearing including corporate guarantee extended to subsidiary stood at 1.33x as on March 31, 2021.

With significant increase in GCA in FY21, its Net debt/GCA which had previously witnessed a deteriorating trend, improved to 5.91x as on March 31, 2021. PBILDT interest coverage also improved from 1.39x in FY20 to 2.12x in FY21 on account of increase in operating profits along with reduced interest expenses.

Favourable working capital cycle

EAL opens Letter of credit (LC) for approximately six months for its raw material purchase and earmarks fixed deposits for the same. Further, it is required to 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 11 days in FY21. Thus, the average working capital cycle of EAL stood favorable at 17 days (excluding LC backed acceptances) in FY21.

Stable 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 middle-class population and steadily rising affluence levels. The demand was largely affected in FY21 and the current fiscal due to global outbreak of Covid-19 and consequent imposition of lockdown and various restrictions across the globe that led to supply chain disruptions. Crude palm oil in particular witnessed a sharp contraction in demand from bulk consumers.

However, going forward, with ease of supply disruptions and receding impact of the pandemic, the demand is expected to improve.

Liquidity: Adequate

EAL is expected to earn adequate cash accruals to meet its term debt repayment obligation of about Rs.181 crore in FY22. The company had free cash balance of Rs.210 crore as on March 31, 2021. Need-based unsecured loan infusion from promoters also aids its liquidity.

The company does not have significant fund based working capital limits apart from an overdraft limit of Rs.20 crore since July 2021. 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 89% during the trailing 12 months period ended September 2021.

The company does not have any large capital expenditure plan in the medium term and the commitment towards the small ongoing capex projects from internal accruals stands limited at around Rs.12 crore in FY22 and FY23 each.

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 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 are relatively high margin and expected to provide diversification to the company's existing edible oil business.

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

Raw material cost accounted for around 95% of total cost of sales of EAL during the last three years. Major raw materials required for 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 against the imports of raw materials at the time it sells its finished goods.

Volatile raw material and finished goods prices

The price of domestic edible 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.

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 depends 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 based on actions of various government institutions.

Analytical approach: Standalone along with factoring in the linkages with the Emami group. Support extended to its foreign subsidiary by way of corporate guarantee has also been factored in the analysis.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

EAL, belonging to the Emami group of Kolkata, is engaged in refining of various edible 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 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 Financials of EAL (Rs. Crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total Operating Income	12,941	14,573	8,809
PBILDT	530	679	211
PAT	125	183	NA
Gross Overall gearing (times)	2.49	2.64	NA
Net Overall gearing (times)	0.95	1.29	NA
TOL/TNW	4.35	3.92	NA
Interest coverage (times)	1.39	2.12	2.11

A: Audited; UA: Unaudited, NA: Not Available

Note: Net overall gearing has been calculated on the basis of total debt net of margin money.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument/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

Bank Lender details: Annexure – 5

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Mar-29	1047.49	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	5720.30	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	-	80.00	CARE A2+
Term Loan-Long Term	-	-	-	Dec-23	80.25	CARE A-; Stable
Term Loan-Long Term	-	-	-	Sep-22	25.00	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 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	1047.49	CARE A-; Stable	-	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (08-Jan-20)	1)CARE A-; Stable (08-Jan-19)
2	Fund-based - LT-Term Loan	-	-	-	-	-	-	1)CARE A-; Stable (08-Jan-19)
3	Non-fund-based - ST-Letter of credit	ST	5720.30	CARE A2+	-	1)CARE A2 (06-Jan-21)	1)CARE A2 (08-Jan-20)	1)CARE A2 (08-Jan-19)
4	Non-fund-based - ST-Bank Guarantees	ST	80.00	CARE A2+	-	1)CARE A2 (06-Jan-21)	1)CARE A2 (08-Jan-20)	1)CARE A2 (08-Jan-19)
5	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (08-Jan-19)
6	Term Loan-Long Term	LT	80.25	CARE A-; Stable	-	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (08-Jan-20)	-
7	Term Loan-Long Term	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (06-Jan-21)	1)CARE A-; Stable (08-Jan-20)	-

Annexure 3: Detailed explanation of covenants of the rated instruments/ 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

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 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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