Empire Industries Limited(revised)

August 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	150.98 (Reduced from 234.54)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short-term bank facilities	107.19 (Reduced from 110.00)	CARE A1 (A One)	Reaffirmed
Total bank facilities	**258.17 (₹ Two Hundred fifty-eight crore and seventeen lakh only)**		
Fixed deposit	89.30 (Enhanced from 83.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total medium-term instruments	**89.30 (₹ Eighty-nine crore and thirty lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and fixed deposit programme of Empire Industries Ltd (EIL) continue to derive strength from the established track record of the company in diverse business segments, established clientele base, healthy cashflows from lease rentals business and comfortable financial risk profile marked by strong net worth and comfortable capital structure.

However, these ratings strengths are tempered by large working capital requirements and high competition prevalent in the property leasing business which is also exposed to rollover risk. The ratings also consider exposure to volatility in profitability in trading division.

The outlook has been revised to Stable on account of improvement in profitability, especially from lease rental and real estate division. The performance of the company is expected to improve on account of discontinuation of loss-making export trading division (prawns/shrimp) in FY22 which should support the company to improve its profitability margins. Furthermore, working capital intensity is also expected to come down. The performance of lease rental division is also expected to improve with improvement is occupancy in the Lower Parel property. The real estate division which was funded entirely out of internal accrual will also support the operations.

Rating sensitivities

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

- Improvement in cash accruals to above ₹ 80 crore on sustainable basis
- Improvement in ROCE above 25% through improvement in cash flows

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

- Decline in scale of operations to below ₹ 400 crore and cash accruals to below ₹ 40 crore
- Increase in operating cycle above 180 days on sustained basis
- Increase in the overall gearing to above 1.00x owing to any debt-funded capex over the medium term
- Significant increase in construction cost leading to cost overruns or delay in receipt of customer advances, impacting the liquidity profile and capital structure

Outlook: Stable

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

Detailed description of the key rating drivers

Key rating strengths

Long track record with highly experienced promoters:

EIL has a long track record in manufacturing of vitrum glass. Over the years, the company has also diversified into various businesses. S C Malhotra is the Promoter cum Chairman of the company and with over six decades of experience in the industry currently looks after the overall corporate responsibilities. The top management is also supported by professionals having significant experience in their respective field.

Diversified revenue profile:

The company's revenue profile has been diversified with EIL operating in multiple divisions whereby its core competence is in the glass division. Over the years, the company has diversified into various other segments such as trading of food products, lease income earned from property rentals, trading of machine tools & equipment as well as business support service. The company garnered major profitability from its lease business followed by real estate development in Ambernath during FY22. The company recorded revenue of ₹545.25 crore in FY22 (PY: ₹495.92 crore) and ₹149.59 crore in Q1FY23 (Q1FY22: ₹101.72 crore).

Improvement in scale of operations and profitability in FY22:

The company recorded revenue of ₹545.25 crore in FY22 (PY: ₹495.92 crore) and PBILDT margin stood at 11.04% (PY: 9.86%) in FY21. This was majorly driven by increased lease rentals from Vikhroli properties and sale of residential units.
In Q1FY23 EIL's PBILDT and PAT margin stood at 12.01% and 3.98% respectively. Going forward, PBILDT margins are expected to be in range of 12%-14% over the medium term.

Established track record of servicing reputed clientele:

EIL's operations comprise diversified businesses and thus caters to a wide clientele. The company has long association with large pharmaceutical companies for its vitrum glass division. Furthermore, the company has tie-ups with reputed hotels for its food division. For lease business, the company has tenants with strong credit profile. Thus, the company has wide spread and long-term relationships with its clientele which helps it in securing repeat orders.

Comfortable capital structure and adequate liquidity profile:

The overall gearing of EIL (excluding impact of lease obligations) improved to 0.91 times as on March 31, 2022 from 1.05 times as on March 31, 2021 mainly due to timely repayment of debt obligations. During FY20, the company incurred capital expenditure of around ₹60 crore for the vitrum glass unit for replacement of the machinery coupled with increase in working capital utilisations owing to food division export business. However, EIL has discontinued the food export division which improved the overall working capital cycle and lower interest expenses. Furthermore, stable cash accruals from lease business have allowed the debt protection metrics to remain at comfortable range even with increase in debt. Total debt to GCA was at 5.82x and PBILDT interest coverage at 2.22x in FY22. Going ahead, the company does not have any debt-funded capex plans over the medium term; hence debt coverage indicators are expected to remain comfortable.

Key rating weaknesses

Working capital intensive operations:

EIL's trading operations are working capital intensive on account of high inventory levels maintained by the company. Higher inventory levels are also partly attributed to work-in-progress inventory for real estate. The company's operating cycle improved in FY22 to 175 days from 213 days in FY21 and is expected to improve going forward as the company discontinued its exports of prawns/shrimp division. However, the overall continuing operations are expected to remain working capital intensive over the medium term. The average maximum utilisation of working capital limits for the last 12 months ended June 2022 was 18.59% with unutilised limits providing liquidity buffer.

Presence in highly competitive commercial space:

Over the period, the areas (Lower Parel and Vikhroli in Mumbai), where EIL's leased properties are located, have developed as hubs for corporate offices, banks, and IT service providers. As a result, many other companies have developed their properties in these areas. Thus, competition exposes the company to rollover risk and reduces its ability to increase average rental prices. However, the overall occupancy has improved in FY22 vis-à-vis FY21.

Liquidity: Adequate

The liquidity is adequate backed by healthy cash accruals and moderate utilisation of fund-based limits. The company has repayment obligations amounting to Rs.15.95 crore in FY23 and Rs.18.46 crore in FY24. The cash accruals are expected to remain above Rs.35 crore during FY23 and FY24. The company has free cash and cash equivalents and unencumbered fixed deposits of around Rs.48.69 crore as on March 31, 2022. Additionally, the average maximum utilisation of fund-based facilities for the past 12 months ended June 2022 stood at 18.59%, providing liquidity backup. The company does not have any major debt-funded capex plans over the medium term.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating methodology for Debt backed by lease rentals

Rating methodology for Real estate sector
Wholesale Trading

About the company

EIL is a century-old company engaged in diverse businesses. The company is promoted by S C Malhotra who currently looks after the overall corporate function. The main business divisions of the company are the vitrum glass division which is engaged in manufacturing of amber glass bottles for the pharmaceutical industry, the food division involved in importing and distribution of sea foods, the agency business involved in procurement of machine tools/industrial equipment from foreign principals on behalf of domestic clients and the property rental business and real estate project in Ambernath, Mumbai.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	495.92	545.25	149.59
PBILDT	48.92	60.19	17.96
PAT	13.21	23.69	5.95
Overall gearing (times)	1.05	0.91	NA
Interest coverage (times)	1.40	2.22	NA

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

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

Fund-based - LT-Cash credit		-	-	-	50.76	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	107.19	CARE A1
Fund-based - LT-Term loan		-	-	20.03.36	100.22	CARE A; Stable
Fixed deposit		-	-	-	89.30	CARE A; Stable

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	Fixed deposit	LT	89.30	CARE A; Stable	1)CARE A; Negative (22-Jun-22)	1)CARE A (FD); Negative (26-Oct-21)	1)CARE A (FD); Negative (28-Sep-20)	1)CARE A (FD); Stable (30-Jul-19)
2	Fund-based - LT-Cash credit	LT	50.76	CARE A; Stable	-	1)CARE A; Negative (26-Oct-21)	1)CARE A; Negative (28-Sep-20)	1)CARE A; Stable (30-Jul-19)
3	Non-fund-based - ST-BG/LC	ST	107.19	CARE A1	-	1)CARE A1 (26-Oct-21)	1)CARE A1 (28-Sep-20)	1)CARE A1 (30-Jul-19)
4	Fund-based - LT-Term loan	LT	100.22	CARE A; Stable	-	1)CARE A; Negative (26-Oct-21)	1)CARE A; Negative (28-Sep-20)	1)CARE A; Stable (30-Jul-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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

Sr. No.	Name of Instrument	Complexity Level
1	Fixed deposit	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple
4	Non-fund-based - ST-BG/LC	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 Limited (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: Arunava Paul
Phone: +91-9820904584
E-mail: arunava.paul@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

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