E.I.D. Parry (India) Limited

July 5, 2023

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	650.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 benefits derived from being part of 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. EID derives financial flexibility from being the holding company for Coromandel International Limited (CIL) which also has a healthy track record of dividend payout.

The rating also takes note of overall improvement in the operational performance aided by better realizations and volumes in each of the segments that it operates in i.e. Sugar, distillery and power during FY23. The rating is also underpinned by healthy financial risk profile, despite ~₹330 cores increase in debt. Capital structure of EID continues to remain comfortable despite deterioration in overall gearing to 0.19x as on March 31, 2023 (0.05x as on March 31, 2022). The short-term debt increased from ₹4 crores in FY22 to ₹353 crores in FY23 due to higher utilization of fund-based limits for working capital requirements.

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 recent improvements.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Not applicable

Negative factors

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

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.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that EID Parry will continue to benefit from its establish track record and strengths derived from being part of the Murugappa group. The ongoing distillery segment is expected to increase overall revenue from FY25.

Detailed description of the key rating drivers:

Key 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., Wendt (India) Ltd, Shanthi Gears ltd and CG Power and Industrial Solutions 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, ethanol, generation of power through sugar (cogen) and nutraceuticals. As on March 2023, EID has sugarcane crushing capacity of 40,300 TCD, co-generation capacity of 140 MW and distillery capacity of 417 KLPD across units located at Nellikuppam, Pugalur and Sivaganga in Tamil Nadu; Sankili in Andhra Pradesh; and Bagalkot, Haliyal and Ramdurg in Karnataka. The company also has two nutraceuticals factory and four R&D centres located at Tamil Nadu. In FY23 the company had commenced the 120 KLPD ethanol factory in Sankili (costing around ₹104 crores), adding to the company's ethanol manufacturing facility to take advantage of the

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

Govt's ethanol blending policy. 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. Also, 165 KLPD expansion in Haliyal and Nellikuppam are in progress, it is expected that the benefits of all these expansions will flow from FY25. The total cost of these projects is around ₹270 crores. The company has also secured sanction letters amounting to ₹237 crores for the same. As of April 2023, the company has utilized ₹10 crores and the projects are expected to be completed by March 2024.

Increased sales owing to better realizations:
During FY23, TOI increased by 13.4% to ₹3153 crore, compared to Rs.2772 crore of previous year. The sugar business which constitutes about 68% of the sales witnessed a growth of 10% on the back of increase in better sales realization across all segments and higher of domestic sugar sales. The company has been working on various strategies to maximize sales realization by introducing value added products in Retail & Institution segment which justifies charging a higher price. The institutional and retail sales have 2.78x premium over the trade segment sales. While the loose sugar is traded at ₹33-35 per kg, the retail rate can go upto ₹120 per kg for certain premium products as per latest MRP charged. Out of the domestic sales, 76% represents institution and retail and the remaining is trade. The PBILDT margin slightly moderated to 16.43% in FY23 as against 17.74% in FY22 largely on account of higher salary and higher input costs. The company reported PAT of ₹197 crores during FY23 vis-à-vis ₹283 crores during FY22 the fall is mainly on account of the impairment of investments amounting to ₹155 crores based on the future projections of cash flow.

Healthy financial risk profile, despite increased working capital borrowing: Capital structure of EID continues to remain comfortable despite deterioration in overall gearing to 0.19x as on March 31, 2023 (0.05x as on March 31, 2022). The debt coverage indicators, interest coverage ratio and term debt/GCA stood comfortable at 14.62x (PY-10.67x) and 0.60x (PY-0.29x) respectively during FY23 due to increase in profitability combined with lower interest costs. The short term debt increased from ₹4 crores in FY22 to ₹353 crores in FY23 due to higher utilization of fund based limits for working capital requirements. Cane bills discounted earlier has been funded through companies working capital facilities resulting in higher utilization of fund -based limits and reduction in average creditor days (come down from 136 days in FY22 to 82 days in FY23). The financial risk profile is expected to remain comfortable in FY24.

Investments in the subsidiary, CIL, providing regular dividend inflow: EID derives financial flexibility from being the holding company for CIL. During FY23, Coromandel reported profit after tax (PAT) of Rs 2,035 crore (PY: ₹1,412 crore) on total income of Rs 29,610 crore (PY: ₹19,088 crore). As on June 30, 2023, market capitalization of Coromandel stood at ₹27,809 crores. Its 56.27% stake in CIL is valued at around Rs.15,648 crores. CIL has a healthy track record of dividend payout. Since FY17, EID has received cumulative dividend income of around ₹992 crores from CIL aiding the overall revenues and profitability of the company. EID received dividend income of around ₹200 crore in FY22 and FY23 from CIL.

Key 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 ₹687 crore (PY: ₹824 crore) as on March 31, 2023. Of these, majority of the investments are in CIL (₹112 crore), PSRIPL (₹478 crore) and US Nutraceuticals Inc. (₹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. The company has recorded impairments aggregating to ₹155 crores in FY23 relating to the three investments/JVs – PSRIPL, Alimtech and Algavista. The major impairment is in PSRIPL amounting to over ₹100 crs.

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. Regulatory mechanisms and dependence on monsoons for cane availability have also rendered the sugar industry cyclical. Domestic and International climate prediction centers have been anticipating an El Nino effect in FY24 and consequently commodity prices like Sugar, Soy bean have been increasing in Q1FY24. Risk of El -nino during Q3FY23 impacting monsoons in Asian countries would result in significant variability in 2023-2024 sugar balance projections. El nino usually brings increased rainfall and floods in Brazil and less rain in India. Although the aforementioned force majeure is expected to have impact on India's agriculture, the same is yet to be seen and the impact of the same remains key credit monitorable.

Liquidity: Adequate
The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis repayment obligations. The average working capital utilization has been low at 12% for the last 12-month period ended March 2023, however the average utilization for the Jan-March 2023 ~35%. Cane bills discounted earlier has been funded through companies working capital facilities resulting in higher utilization of fund-based limits and reduction in average creditor days. Furthermore, EID has about ₹50 crs total scheduled principal repayment in FY24 against the expected cash accruals of about ₹460 crs to ₹490 crs. Considering the cushion available in form of unutilized working capital limits and strong parentage being part of Murugappa Group, it is expected that the debt obligations could be met comfortably. The capex plans of the company include 120 and 45 KLPD expansion in Haliyal and Nellikuppam are in progress, it is expected that the benefits of all these expansions will flow from FY25. The total cost of these projects is around ₹270 crores. The company has also secured sanction letters amounting to ₹237 crores for the same. As of April 2023, the company has utilized ₹10 crores and the projects are expected to be completed by

March 2024. Other than this expansion, EID does not envisage any major planned capex in the next 1-2 years expect the maintenance capex amounting to ₹40-70 crores.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks:
The major ESG risk factors and the mitigation efforts taken by the company are listed below:
Environmental:

1. Water usage: Autonomous irrigation systems were installed on a pilot-scale basis in farmers fields and recorded irrigation water saving up to 60% in sugarcane cultivation. The company also invested resources in a new method of gravimetric drip irrigation to save the water with cutting-edge technology, particularly for high water scarcity areas. Nellikuppam facility is Zero Liquid Discharge plant and uses treated sugar condensate and recycled water for sugar production and distillery, there is no freshwater requirement in Nellikuppam except in cogeneration plant.
2. Energy conservation: Various energy conservation projects which have been carried out across the plants like: Steam saving project in Pugalur, efficient heat transfer in multiple facilities, Bagasse drying system at Haliyal facility. As per general industry trends, the power required is 35 kw / ton of cane whereas all manufacturing units of EID operate between 24 to 30 kw / ton of cane.
3. Valorisation of wastes: EID is working upon several value-added projects to create wealth from waste. For example, the company is working on developing value-added products from excess bagasse.

Social:

1. Negative health impacts of sugar like obesity, diabetes: The company has been introducing new variants of sugar which are low- glycemic index products, which does not spike the blood sugar levels when ingested, with 30% lesser glucose load.
2. Employee safety: The Company has institutionalized an architecture to ensure employee wellbeing across the organization by effective deployment of a Business Continuity Manual, Investing in management of employee wellbeing and creating a sustainable ecosystem at workplace. The Company contributes to the medical insurance of its employees and also organizes health checkups for employees.

Governance:
The company has adequate internal controls. Though the company is a family managed entity, there is a team of well-qualified personnel who assist them in decision making. The promoters have been in the business for more than 20 years. Given that Sugar industry is amount the highly regulated one in India, EID also ensures timely compliance with the various state and central government rules in a timely manner.

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
Sugar
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

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 bioproducts. EIL is into sugar manufacturing with capacity of 40,300 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 140 megawatt (MW) and distillery capacity of 417 kilo litre per day.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	Q1FY23
Total operating income	2,772.22	3,152.95	NA
PBILDT	491.82	516.62	

PAT	283.50	196.82	
Overall gearing (times)	0.05	0.19	
Interest coverage (times)	10.67	14.62	

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	7-365 days	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 2023-2024	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	650.00	CARE A1+	-	1)CARE A1+ (06-Jul-22)	1)CARE A1+ (02-Nov-21)	1)CARE A1+ (12-Nov-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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About us:
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