Empire Industries Limited

August 11, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	88.37 (Reduced from 150.98)	CARE A; Stable	Reaffirmed
Short term bank facilities	104.98 (Reduced from 107.19)	CARE A1	Reaffirmed
Fixed deposit	98.96 (Enhanced from 89.30)	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

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. The overall performance has improved in FY23 on account of discontinuation of loss-making export trading division (prawns/shrimp). The performance of lease rental division is also expected to improve with expected improvement is the occupancy in the Lower Parel property.

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 rating also factors in the diversified business of the company along with investments in the real estate business for new phases.

Rating sensitivities: Factors likely to lead to rating actions:

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

Negative factors
- 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 overall gearing to above 1x 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.

Analytical approach: Standalone

Outlook: Stable
CARE Ratings Limited (CARE Ratings) believes that Empire Industries Limited (EIL) will continue to benefit from its established market position, experience of the promoters along with long-term relationship with reputed customers. The financial risk profile along with the liquidity profile is expected to remain comfortable backed by improvement in scale of operations and stable income from lease rentals and sustenance of profitability (PBILDT) margins.

Detailed description of the key rating drivers

Key strengths:

Experienced management
EIL has a long track record in manufacturing of vitrum glass and marketing amber glass bottles of international quality for the pharmaceutical industry - both in India and abroad. 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 and currently

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

looks after the overall corporate responsibilities. The top management is also supported by professionals having significant experience in their respective field.

Well diversified revenue streams with application in varied end-user industries
The company's revenue profile has been diversified with EIL operating in multiple divisions whereby its core competence is in the vitrum 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, vending machine business under the brand name 'Grabbit+', real estate business as well as business support service. The company has recorded PBILDT margin of 11.83% in FY23 and the margins are expected to remain in the range of 11%-12% in near term. The company garnered major i.e around 55% of its profitability from its vitrum glass division followed by lease business division. EIL has recorded revenue of ₹683.87 crores in FY23 (PY: ₹545.25 crores) i.e Y-O-Y growth of around 25%, and ₹178 crores in Q4FY23 (Q4FY22: ₹192 crores).

Established track record of servicing reputed clientele.
EIL's operations comprise diversified businesses and thus caters to a wide clientele namely Glaxo Smith Kline, Pfizer, Abbott India, Merck India, Cipla, Wardex Pharmaceuticals, Himalaya Drug Co, Aristo, Procter & Gamble, Dabur India, Cadila healthcare. 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. The company has widespread and long-term relationships with its clientele which helps it in securing repeat orders. Thus, CARE ratings believe that these long-term relationships will result in repeat orders by the clients in medium term as well.

Wide distribution network with broad and reputed clientele base
This vitrum glass division is in the business of manufacturing and marketing amber glass bottles of international quality for the pharmaceutical industry - both in India and abroad. The foods division imports various types of frozen food from all over the world and sells to leading hotels, restaurants, and caterers in the country. It has nine offices located throughout the country and is the largest importer and distributor of frozen and chilled food in India. Agency business has customers from Germany, Russia, Korea, France, Spain, Japan, Romania, Italy, UAE, Netherlands, China and others. Thus, the company has widespread and long-term relationships with its clientele which helps in securing repeat orders.

Consistent growth in scale of operations and healthy profitability during FY22 & FY23
There has been improvement in the scale of operations with total operating income (TOI) of ₹683.87 crore in FY23 (PY- ₹ 545.25 crore). This was predominantly driven by improved realisations in glass business, escalation in rent in lease rental division and uptrend in food division demand. Also there has been improvement in in the Empire Machine Tools (EMT) division which involves procurement of machine tools/industrial equipment from foreign principals on behalf of domestic clients (back-to-back arrangements and the company earns only commission income) and provides installation and annual maintenance service as well. Furthermore, EIL has discontinued its working capital intensive and loss-making food export division. This has helped EIL to save higher interest expenses associated with the division. The PBILDT margins of the company marginally improved from 11.03% in FY22 to 11.83% in FY23. The company is expected to maintain its PBILDT margin in the range of 11% over the medium term.

Comfortable financial & liquidity risk profile
The overall gearing of EIL (excluding impact of lease obligations) improved to 0.64 times as on March 31, 2023, from 0.91 times as on March 31, 2022, mainly due to timely repayment and even pre-payments of debt. 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 will allow the debt protection metrics to remain at comfortable range even in case of increase in debt. Total debt to GCA was at 3.61x for FY23 (PY- 5.82x) and PBILDT interest coverage at 2.43x in FY23 (PY- 2.22x). The total outside liabilities to networth (TOL/TNW) for EIL on March 31, 2023, was 1.57 times. Going ahead, the company does not have any debt-funded capex plans over the medium term; hence debt coverage indicators are expected to remain moderately comfortable.

Key weaknesses:

Working capital intensive nature of 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 FY23 to 168 days from 194 days in FY22 as the company discontinued its exports of prawns/shrimp division. However, overall continuing operations are expected to remain working capital intensive over the medium term. The average maximum utilization of working capital limits for last 12 months ended March 2023 was 2% with unutilized limits providing liquidity buffer.

Susceptibility to fluctuations in product prices and volatility in forex rates
EIL deals in a segment where it imports goods and sells it domestically. EIL is exposed to foreign exchange volatility if the exposure kept unhedged.

Presence in highly competitive commercial space
Over the period, the areas (Parel and Vikhroli in Mumbai), where EIL's leased properties are located, have developed as hub 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. Presently, the occupancy level of Lower Parel stood at around 70% and Vikhroli properties stood at 100%.

Liquidity: Adequate
The liquidity is adequate backed by healthy cash accruals and moderate utilization of fund-based limits. The company has repayment obligations amounting to ₹33 crores in FY24 and ₹19 crores in FY25. The cash accruals are expected to remain above ₹50 crores during FY24 and FY25. The company has free cash and cash equivalents and unencumbered fixed deposits around ₹67.84 crore as on March 31, 2023. Additionally, the average maximum utilization of fund- based facilities for past 12 months ended May 2023 stood at 2%, providing liquidity backup. The company does not have any major debt-funded capex plans over the medium term. Total FD with Bank as of July 2023 is ₹90.23 Cr out of which ₹76.80 crores is free unencumbered FD. Total cash bank balance as of July 2023 is ₹25.07 Crores.

Assumptions/Covenants: Not applicable

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Rating methodology for Debt backed by lease rentals
Rating methodology for Real estate sector
Policy on Withdrawal of Ratings

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

EIL is a century-old company engaged in diverse businesses. The company is promoted by Mr 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, 2022 (A)	March 31, 2023 (P)	Q1FY24
Total operating income	545.25	683.88	NA
PBILDT	60.19	80.91	NA
PAT	23.69	35.52	NA
Overall gearing (times)	0.91	0.65	NA
Interest coverage (times)	2.22	2.44	NA

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: NA

Disclosure of Interest of Managing Director & CEO: NA

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 the 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
Fixed Deposit		-	-	-	98.96	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	52.97	CARE A; Stable
Fund-based - LT-Term Loan		-	-	Feb-23	35.40	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	104.98	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	Fixed Deposit	LT	98.96	CARE A; Stable	-	1)CARE A; Stable (19-Aug-22) 2)CARE A; Negative (22-Jun-22)	1)CARE A (FD); Negative (26-Oct-21)	1)CARE A (FD); Negative (28-Sep-20)
2	Fund-based - LT-Cash Credit	LT	52.97	CARE A; Stable	-	1)CARE A; Stable (19-Aug-22)	1)CARE A; Negative (26-Oct-21)	1)CARE A; Negative (28-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	104.98	CARE A1	-	1)CARE A1 (19-Aug-22)	1)CARE A1 (26-Oct-21)	1)CARE A1 (28-Sep-20)
4	Fund-based - LT-Term Loan	LT	35.40	CARE A; Stable	-	1)CARE A; Stable (19-Aug-22)	1)CARE A; Negative (26-Oct-21)	1)CARE A; Negative (28-Sep-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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