Empire Industries Limited

September 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	73.36 (Reduced from 88.37)	CARE A; Stable	Reaffirmed
Short-term bank facilities	104.98	CARE A1	Reaffirmed
Fixed Deposit	98.96	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to bank facilities and fixed deposit instrument of Empire Industries Limited (EIL) factors in EIL's diversified business profile, established track record of operation in these segments, reputed clientele base and continued healthy cashflow support from its lease rental division. The company's comfortable capital structure and its adequate liquidity profile continues to support its comfortable financial risk profile.

However, the rating remains constrained by large working capital requirements and volatile profitability due to its trading division. The company is exposed to intense competition in its business segments, especially trading and leasing activities. The company is exposed to renewal risk at existing rates in the lease rental division. Against healthy cashflows and profitability from few of its business segments, significant investments is required in real estate project, which is exposed to saleability risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving cash accruals over ₹80 crore on sustainable basis.
- Improving return on capital employed (ROCE) over 25% through improving cash flows.

Negative factors

- Declining cash accruals below ₹40 crore.
- Declining occupancy of leased-out property below the existing level.
- Increasing net overall gearing over 0.5x owing to debt-funded capex in the medium term.
- Significantly increasing construction cost leading to cost overruns or delay in receipt of customer advances, impacting liquidity profile and capital structure.

Analytical approach: Standalone

Outlook: Stable

EIL's stable outlook reflects its long track record of operations in its diversified business, its longstanding relationship with customers and strategic location of its leased out and real estate properties, enabling the company to sustain its performance in the long term.

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

Detailed description of key rating drivers:

Key strengths

Stability driven by diversified business segment

EIL continues to be into manufacturing, trading, leasing and in the real estate segment. In its vitrum glass division, the company manufactures amber glass bottles, which has varied applications, especially in pharmaceuticals and beverage companies. The company continues to trade frozen products and added dairy products in its portfolio in FY24. Over the years, the company diversified into other segments such as trading machine tools and equipment, lease income earned from property rentals, vending machine business under the brand name 'Grabbit+', real estate business and business support service. The vitrum glass division continues to remain the major revenue contributor at 41% towards the total revenue of EIL in FY24 (FY23: 35%) and has benefitted from improvement in sales volume and realisation.

Diversified client profile with long standing relationships

EIL's operations comprises diversified businesses and caters to a wide clientele including Glaxo Smith Kline, Pfizer, Abbott India, Merck India, Cipla, Wardex Pharmaceuticals, Himalaya Drug Co, Aristo, Procter & Gamble, Dabur India, and Cadila healthcare. The company has long-association with large pharmaceutical companies for its vitrum glass division. The company also has tie-ups with hotels for its food division. For lease business, the company has tenants with strong credit profile. The Empire Industrial Equipment (EIE) business has customers such as IOCL, and Oil India corporation among others. The agency business has customers from Germany, Russia, South Korea, France, Spain, Japan, Romania, Italy, the UAE, the Netherlands, China and others. The company has widespread and long-term relationships with its clientele, which helps in securing repeat orders. CARE Ratings Limited (CARE Ratings) believes that these long-term relationships will result in repeat orders from clients in the medium term as well.

Wide distribution network with broad and reputed clientele base

This vitrum glass division is into manufacturing and marketing amber glass bottles of international quality for the pharmaceutical industry in India and abroad. The foods division imports frozen food from all over the world and sells to leading hotels, restaurants, and caterers in the country. It has nine offices throughout the country and is the largest importer and distributor of frozen and chilled food in India. The agency business has customers from Germany, Russia, South Korea, France, Spain, Japan, Romania, Italy, the UAE, the Netherlands, China and others. The company has widespread and long-term relationships with its counterparties.

Moderate scale of operations; however, profitability continues to remain healthy

EIL's scale of operations continues to remain moderate. Improving infrastructure, expansion plans across industries, increasing population and their diverse consumption patterns are expected to support the diverse business segment of the company, which includes trading machine tools and industrial equipment, and trading frozen products, among others. The company's strategic location under development in the real estate segment is expected to support in terms of revenue. This property near the upcoming Chikoli Station in Mumbai is going to build the connectivity and boost demand for residential and commercial properties. The strategic location of leased-out properties at Vikhroli and Lower Parel, Mumbai and the y-o-y rent escalation from the company's commercial leasing activity is expected to continue its support to the company's scale and cashflows.

Though the scale of operations continues to remain moderate, there has been revenue decline of 11% in FY24 considering lower revenue contribution from real estate division and equipment trading segment as compared to the last year. In real estate, the revenue booking is on milestone basis, which restricts revenue booking. Uptick of 1BHK units were slow. Total income from operations (TOI) stood at ₹607.87 crore in FY24 (FY23: ₹683.88 crore). The company performed better in Q1FY25 with revenue at ₹151.67 crore (Q1FY24: ₹147.64 crore) and operating margin at 10.79% (Q1FY24: 10.64%; F23: 11.83%). The vitrum glass division and commercial leasing division continues to drive the company's operating profitability. The company's profitability is expected to improve gradually with EIL's plan to increase its exposure to beverage industry in the vitrum glass division, given its higher realisation.

Comfortable debt metrics and coverage indicators
Considering no debt led capex plan, the company's overall gearing is expected to remain comfortable in the near-to-medium term. In the real estate segment, despite pending construction cost of ~₹122 crore, there will be no additional bank debt as the company is planning to fund this cost by customer advances and internal accruals. Hence, gearing is expected to remain comfortable in the near-to-medium term. The company's debt profile comprises lease rental discounting (LRD) loans, working capital facilities, unsecured loan from directors and unsecured deposits. Overall gearing stood below unity at 0.57x as on March 31, 2024 (As on March 31, 2023: 0.70x). Interest coverage stood at 2.46x in FY24 (FY23: 2.44x). Net overall gearing stood at 0.37x as on March 31, 2024 (As on March 31, 2023: 0.52x).

Key weaknesses

Renewal risk in leave and licensing division and low occupancy
EIL has commercial property in Vikhroli and Lower Parel, Mumbai, which are leased out. Occupancy in Vikhroli continues to remain healthy at 100%; however, that in Lower Parel continues to remain low at 67% as on August 31, 2024. Around 19% of the leasable area in Lower Parel is scheduled to expire in FY25, exposing the company to renewal risk. Per EIL's management, investment in fitouts by respective tenants will ensure lease renewal, which remains to be a key monitorable as decline in income from this division will have a direct impact on the company's profitability and gross cash accruals (GCA).

Presence in highly competitive commercial space
Over the last decade, location of (Parel and Vikhroli in Mumbai), where EIL's leased properties (Parel and Vikhroli in Mumbai) 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. The competition exposes the company to rollover risk and reduces its ability to increase average rental prices.

Susceptibility to fluctuations in product prices and volatility in forex rates
EIL imports goods and sells it domestically. EIL is exposed to foreign exchange volatility if the exposure unhedged. However, there is pass through of prices in the final product and hence the risk gets partially mitigated.

Exposed to saleably risk in real estate division
The company is exposed to sales risk in the real estate project since it is planned to be funded by customer advances and internal accruals. The company's ability to sell balance flats in timely manner as envisaged at the desired rate will be important from a credit perspective.

Liquidity: Adequate
The company's liquidity is adequate with expected GCA over ₹50.00 crore in the coming years, against which, the principal debt obligation towards bank loan is ₹10.60 crore and ₹7.6 crore in FY25 and FY26 respectively. The bank loan repayment obligation remains low given the company's prepayment done till date. The company has sufficient headroom in the form of unutilised limits as EIL's average maximum utilisation of fund-based limit is only 4% for 12-months ended July 31, 2024. Moreover, the company has free cash and bank balance of ₹62.72 crore as on March 31, 2024 (As on March 31, 2023: ₹51.99 crore), which is inclusive of free deposits as well. The fixed deposit repayments are managed from renewals and fresh issuances every year.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals
Rating methodology for Real estate sector
Short Term Instruments
Wholesale Trading

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 S C Malhotra, who currently looks after the overall corporate function. The company's main business divisions are the vitrum glass division, which is engaged in manufacturing 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, the property rental business and a real estate project in Ambernath, Mumbai.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	683.88	607.87	151.67
PBILDT	80.91	66.00	16.37
PAT	35.52	36.99	9.69
Overall gearing (times)	0.70	0.58	NA
Interest coverage (times)	2.44	2.46	3.35

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	January 2027	20.39	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	104.98	CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Fixed Deposit	LT	98.96	CARE A; Stable	-	1)CARE A; Stable (11-Aug-23)	1)CARE A; Stable (19-Aug-22) 2)CARE A; Negative (22-Jun-22)	1)CARE A (FD); Negative (26-Oct-21)
2	Fund-based - LT-Cash Credit	LT	52.97	CARE A; Stable	-	1)CARE A; Stable (11-Aug-23)	1)CARE A; Stable (19-Aug-22)	1)CARE A; Negative (26-Oct-21)
3	Non-fund-based - ST-BG/LC	ST	104.98	CARE A1	-	1)CARE A1 (11-Aug-23)	1)CARE A1 (19-Aug-22)	1)CARE A1 (26-Oct-21)
4	Fund-based - LT-Term Loan	LT	20.39	CARE A; Stable	-	1)CARE A; Stable (11-Aug-23)	1)CARE A; Stable (19-Aug-22)	1)CARE A; Negative (26-Oct-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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