Adani Wilmar Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,230.00	CARE AA-; Stable	Assigned
Long-term / short-term bank facilities	15,711.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial paper (Carved out)*	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

*carved out of working capital limits

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities and commercial paper (CP) of Adani Wilmar Limited (AWL) and assignment of rating to long-term bank facilities considers its established market position in domestic edible oil market with leadership position of 'Fortune' brand in edible oil segment.

In FY24 (refers to April 01 to March 31), despite volume growth, AWL reported minor de-growth in total operating income (TOI) to ₹51,263 crore as against ₹58,185 crore in FY23 owing to decline in edible oil prices. The operating profitability, and correspondingly, profit before interest less depreciation and tax (PBILDT) per metric tonne has also declined considerably in FY24 over FY23 largely considering hedge misalignment and impact of high-cost inventory in H1FY24 (refers to April 01 to September 30). Nevertheless, the company's performance improved in Q1FY25 (refers to April 01 to June 30) owing to stable edible oil prices and normalisation of the effect of hedge misalignment. In FY25, PBILDT margins are expected to remain range-bound to Q1FY25 supported by volume growth and stable edible oil prices.

Ratings also consider the steady growth in sales of the industry essentials segment, and the food and fast-moving consumer goods (FMCG) segment, led by volume growth. Ratings also take note of the scheme of arrangement between AWL and Adani Enterprises Limited (AEL; rated 'CARE A+; Positive/CARE A1+') where in post receipt of approvals, AEL shall de-merge its food and FMCG business held under Adani Commodities LLP from AEL to AWL on a going concern basis. AEL's shareholders shall get AWL's shares per the formula given in the scheme. Subsequent to demerger, AEL's promoters shall be the second-largest shareholders in AWL after Wilmar International Ltd (WIL). In view of continued business synergies with WIL, CARE Ratings opines that the proposed scheme of arrangement is credit neutral for AWL and thus expects the underlying credit metrics to remain stable.

Ratings suitably factor in the expansion in its distribution network, strong capital base, comfortable capital structure, and strong liquidity position of AWL despite working capital intensive operations. Ratings are ably supported by AWL's strong parentage, it being a part of the Singapore-based Wilmar group, which is one of the leading agribusiness groups in Asia having linkages with Archer Daniels Midland (ADM- one of the World's largest agro-commodity players). Ratings are also supported by AWL's operational synergies with the Wilmar group's businesses and a defined risk management policy being followed by the company for hedging its foreign exchange and commodity risk, and AWL's strategically located port base and inland edible oil manufacturing and storage facilities providing logistical advantages.

However, above rating strengths are tempered by moderate profitability and debt protection indicators considering edible oil price volatility, working capital intensive operations owing large product range, and exposure to agro-climatic risks in procurement of raw materials. Ratings are also moderated due to AWL's susceptibility to foreign exchange rates, regulatory risk associated with duty structure, presence in the competitive edible oil industry, and the inherent project risk associated with the ongoing and proposed capex.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly expanding PBILDT/ MT while generating envisaged returns from industry essential segment and food & FMCG products segment and managing working capital requirements.
- Significantly improving debt protection indicators while maintaining volume growth on a sustained basis.

Negative factors

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

- Deteriorating total outside liabilities to tangible net worth (TOL/TNW) to greater than 2.50x on a sustained basis.
- Non-adherence to prudent risk management practices to manage commodity price and foreign exchange fluctuation risk.
- Significantly deteriorating debt coverage indictors.

Analytical approach:

Consolidated, while factoring in strong parentage and operational synergies with Wilmar International Limited. The list of entities which have been consolidated is placed in **Annexure-6.**

Outlook: Stable

The stable outlook assigned to bank facilities of AWL continues to derive strength from strong market position of the company in the edible oil segment and diversified product portfolio.

Detailed description of key rating drivers:

Key strengths

Market leader in edible oil segment and diversified product portfolio

AWL continues to enjoy leadership position with single-largest market share in the domestic edible oil industry. AWL is a market leader in soyabean oil, mustard oil and rice bran oil, and ranks among top three players in palm oil and sunflower oil. The company has also established a wide network of distributors and stock points apart from close to 21 lakh retail outlets, which provide cost competency for selling Food & FMCG products under the same distribution channel. AWL has distribution network, including more than 10,000+ distributors network, and presence across Urban towns and 30,000+ rural towns. AWL's product portfolio consists of a wide range of products, including edible oils, non-edible oil, de-oiled cake (DOC), vanaspati, specialty fats, Food & FMCG products such as wheat, besan, atta, rice, and oleo chemicals, among others. In FY24, edible oil contributed to around 76% of the company's total sales, while non-edible oil, vanaspati, by-products such as oleo-chemicals and Food & FMCG products contributed majorly to the remaining portion. Amongst edible oils, soyabean oil continues to be the major driver of revenue followed by palm oil, sunflower oil and mustard oil. Diversified sales mix and prudent risk management framework within the edible oil segment has shielded AWL against global uncertainties such as the Russia-Ukraine issue, interest rate hikes, and others, as compared to its peers.

Strong parentage and operational synergies with Wilmar group's businesses

AWL derives strength from WIL. The Singapore-based Wilmar group is one of the leading vertically integrated agri-business groups in Asia with business interests, including palm plantations, edible oil crushing and refining facilities, manufacturing of sugar, specialty fats, oleo-chemicals, fertilisers and grain processing and storage facilities. ADM, a Fortune 100 company, which is one of the world's largest agricultural processors of soya beans, corn, wheat, and cocoa; holds about 25% in WIL, further strengthening the parentage. AWL's business has strong operational synergies with that of the Wilmar group, which provides it with global linkages for its procurements, mainly crude palm oil, and marketing and distribution linkages for its edible oil products. WIL has also supported the AWL's operations through extension of unsecured line of credit. In addition to above, AWL enjoys the receipt of quality real-time price information and future estimates from WIL, which has operations both in the producing regions and consuming regions.

Decline in revenue and profitability in FY24 despite improvement in performance in Q1FY25

AWL's TOI has registered a y-o-y decline of 12% on consolidated basis in FY24 to ₹51,263 crore as compared to ₹58,185 crore in FY23 owing to softening of edible oil prices. AWL's total sales volume increased by 10% in FY24. The volume growth in edible oil stood at 9% in FY24 as compared to 3% in FY23 due to stable demand. In the same period, the Food & FMCG sector reported a 16% growth, while Industrial Essentials grew by 7%. Overall, the company surpassed a total volume of 6 million metric tons (MMT).

The PBILDT margins moderated marginally by 63 bps and remained at 2.23% in FY24 as compared to operating margin of 2.86% in FY23, mainly considering hedge misalignment which also led to moderation in PBILDT per tonne of edible oil in FY24. During the year, wholly owned step-down subsidiary in Bangladesh reported net loss of ₹111 crore attributed to government-imposed price caps on edible oils, currency-related issues, and the unavailability of counterparties for forex hedging. The decline in operating profitability and losses reported by Bangladesh subsidiary and other joint ventures led to lower consolidated profit after tax (PAT) of ₹148 crore in FY24 as against PAT of ₹582 crore in FY23.

As Per the published Q1FY25 consolidated results of AWL, it reported 12% y-o-y total volume growth and 10% y-o-y growth in its scale of operations, reflecting robust consumer demand due to stable edible oil prices. The operating margins also improved to 4.37% due to normalisation of misalignment of hedges and stable edible oil prices. Going forward, PBILDT margins are expected to remain range bound owing to stable demand and edible oil prices.

Strategically port-based and inland manufacturing and storage facilities providing logistical advantages AWL's manufacturing facilities are at the major procurement centres of its raw materials, seeds and crude edible oil, translating into lower logistics costs for procurement of materials and centralised storage facilities for crude and processed oil and other products. The company's port-based facilities are engaged in refining imported crude edible oil, mainly from Indonesia, Malaysia, Argentina, Brazil, Ukraine, and Russia which are major exporters of crude edible oil, such as palm, soya and sunflower; while the inland facilities manufacture refined oils & process the food & FMCG products and are around the respective cultivation/procurement region.

Well-defined risk governance structure
AWL has a defined system for hedging of its commodity price exposure and foreign exchange risk wherein risk tolerance limit and stop-loss limits are set for commodities across different hierarchy in the company and policy has been defined for hedging of foreign exchange exposure. The risk limits are defined per the minimum hedge ratio as decided by the risk committee.

Stable outlook for edible oil market
India is the largest importer of edible oil in the world. The demand for edible oil is anticipated to continue its growth trajectory of 5-6% in the medium term. The demand from edible oil was moderately impacted in FY22 and FY23 due to the impact of COVID-19 on Hotel, Restaurant, and Catering (HoReCa) segment. However, there was 9% growth in volumes in FY24 and 12% Y-o-Y growth in Q1FY25 reflecting stable demand. The stabilisation in edible oil prices will improve the performance of AWL, going forward.

Augmented capital base and comfortable capital structure
AWL has completed its IPO aggregating to ₹3,600 crore in February 2022. Raising equity has augmented AWL's net worth base at ₹8,134 crore as on March 31, 2024, on a consolidated basis. Augmentation of net worth and decreased trade credits led to improvement in leverage marked by TOL/TNW of 1.21x as on March 31, 2024 as against TOL/TNW of 1.39x as on March 31, 2023.

Key weaknesses

Moderate debt protection indicators
AWL's debt consists of working capital borrowings, largely LC backed creditors. In line with decline in the edible oil prices, the total net debt of the company (including acceptances) reduced from ₹7,547 crore as on March 31, 2023, to ₹5,485 crore as on March 31, 2024, on a consolidated basis. However, owing to moderation in profitability, debt protection indicators stood moderate marked by total debt/PBILDT of 4.79x in FY24. Interest coverage moderated to 1.53x in FY24 due to higher interest cost. CARE Ratings observes, in FY25, with improvement in operating profitability the debt coverage indicators of the company is expected to improve.

Exposure to volatility in crude edible oil prices, forex rates and regulatory changes; despite defined risk management policies followed by company to mitigate same
Exports ban on palm oil and its derivatives by Indonesia, lower production of beans in South America, Russia-Ukraine war and global supply chain issues had led to surge in edible oil prices in May 2022- June 2022. Nevertheless, easing supply situation in sunflower and palm oil globally and lifting of ban on palm exports by Indonesia led to a decline in edible oil prices from July 2022, a trend that sustained till the end of Q1 of FY24. The sharp decline in the edible oil prices and hedge misalignment impacted profitability in FY24. Volatility in prices and dependence on imports and global agro-climatic conditions exposes AWL on industry-specific risks. Additionally, as AWL imports more than 70% of its raw material requirements, it is also exposed to the volatility in foreign exchange rate, mainly United States Dollars (USD). However, a well-defined risk governance structure and the regular review of the processes mitigates the risk to an extent.

Project risk associated with planned capex and proposed capex
AWL is currently undertaking the planned capex of ₹2,200 crore which was phased out over FY23-FY25 to expand capacity in refining, crushing and food & FMCG products to further diversify its revenue stream. The same is being funded through IPO proceeds & internal accruals. In FY24, AWL expended ₹765 crore towards its on-capex, out of which ₹471 crore was towards the edible oil segment and balance towards food and FMCG segment. AWL also plans to undertake capex for its greenfield oleo business, building corporate office, castor derivative plant, soap line capacity extension and harvest dryer. The capex shall be funded through term loan and internal accruals in 75:25 ratio.
AWL remains exposed to the inherent post-implementation risk mainly in food & FMCG products segment considering competition from large players. Going forward, CARE Ratings will continue to monitor AWL's ability to generate the envisaged benefits from the completed projects, mainly in food & FMCG products and the oleo-chemical segment.

Liquidity: Strong
The company's liquidity position has strengthened further and sustained post raising of funds through IPO. AWL had free cash and bank balance of ₹1,486 crore as on March 31, 2024, mainly because of unutilised IPO proceeds, which are expected to be used in capex over the next year. AWL's average collection period remained stable at 13 days in FY24. The average inventory holding period remained range bound at 56 days in FY24. For its imports, AWL avails letter of credit leading to lean operating cycle. This results in higher requirement of non-fund-based limits, the utilisation of acceptances remained a major source of debt financing for AWL in FY24 with outstanding (net) acceptances constituting majority of total debt as on March 31, 2024. The limits remained optimally utilised in the 12 months ended June 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Risk Factors	Compliance and action done by the company
Environmental	AWL has invested in green manufacturing processes and moderating the potentially negative impact on the environment. AWL has drawn inspiration from Wilmar's No Deforestation, No Peat, No Exploitation (NDPE) Policy and other sustainability-related commitments. AWL made a strong commitment to tackle the issue of plastic waste by implementing an extensive Extended Producer Responsibility (EPR) initiative across India. This initiative focuses on the collection and energy recovery of multilayer and plastic packaging waste in collaboration with PROs (Producer Responsibility Organizations).
Social	Favourable labour conditions and Initiative to address malnutrition and anaemia.
Governance	The Board of Directors of the AWL is duly constituted with proper balance of the Executive Directors and the Non-executive Directors and Independent Directors. AWL has a dedicated investor grievance redressal mechanism.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural food & other products	Edible oil

Incorporated in January 1999, AWL is an equal joint venture between the Gujarat-based Adani Group and the Singapore-based Wilmar Group. As on March 31, 2024, the company had an installed capacity of 16,810 TPD of crude oil refining and 7,275 TPD of crushing with a combination of port-based and inland manufacturing facilities at more than 60+ locations across India.

Brief Financials- Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	58,185	51,263	14,169
PBILDT*	1,664	1,145	619
PAT	582	148	313
Overall gearing (times)	0.95	0.67	NA
Interest coverage (times)	2.15	1.53	NA

A: Audited UA: Unaudited; Note: these are latest available financial results
Note: Net debt is considered after excluding outstanding letter of credit acceptances /buyer's credit facilities to the extent of earmarked fixed deposit receipts for arriving at overall gearing.
*interest income is not considered in PBILDT

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial paper-Commercial paper (Carved out)		-	-	7-364 days	500.00	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill discounting		-	-	-	1150.00	CARE AA-; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	5538.00	CARE AA-; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	9023.00	CARE AA-; Stable / CARE A1+
Term loan-Long term		-	-	31-12-2030	1230.00	CARE AA-; Stable

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	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (26-Jul-22)	1)CARE A+; Stable (02-Aug-21) 2)CARE A+; Stable (07-Jul-21)
2	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST	1150.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (08-Aug-23)	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21)

								2)CARE A+; Stable / CARE A1+ (07-Jul-21)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	5538.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (08-Aug-23)	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	9023.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (08-Aug-23)	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)
5	Commercial paper-Commercial paper (Carved out)	ST	500.00	CARE A1+	-	1)CARE A1+ (08-Aug-23)	1)CARE A1+ (26-Jul-22)	1)CARE A1+ (02-Aug-21)
6	Term loan-Long term	LT	1230.00	CARE AA-; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/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	Commercial paper-Commercial paper (Carved out)	Simple
2	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Golden Valley Agrotech Private Limited	Full	Subsidiary with 100% shareholding
2	AWL Edible Oils and Foods Private Limited	Full	Subsidiary with 100% shareholding
3	Adani Wilmar Pte Ltd (AWPTE)	Full	Subsidiary with 100% shareholding
4	Leverian Holdings Pte Ltd (LHPL)	Full	Step-down Subsidiary with 100% shareholding
5	Bangladesh Edible Oil Limited (BEOL)	Full	Step-down Subsidiary with 100% shareholding
6	Shun Shing Edible Oil Ltd (SSEOL)	Full	Step-down Subsidiary with 100% shareholding
7	K.T.V. Health Food Private Limited (KTVHF)	Moderate	Joint venture with 50% shareholding
8	KTV Edible Oils Private Limited	Moderate	100% subsidiary of KTVHF
9	Vishakha Polyfab Private Limited (VPPL)	Moderate	Joint venture with 50% shareholding
10	AWN Agro Private Limited	Moderate	Joint venture with 50% shareholding
11	PT Flextech Packaging	Moderate	25% joint venture of VPPL

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:

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