Emami Agrotech Limited

October 28, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	872.06	CARE BBB+ (RWN)	Placed on Rating Watch with Negative Implications
Short Term Bank Facilities	6,270.40	CARE A2 (RWN)	Placed on Rating Watch with Negative Implications

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the ratings assigned to the Bank Facilities of Emami Agrotech Limited (EAL) on 'Rating watch with Negative Implications'. The rating action follows the intimation of receipt of closure notice from Gujarat Pollution Control Board (GPCB) for EAL's edible oil refining facility at Kandla, Gujarat which contributes to about 25% of company's Total Operating Income (TOI). This was triggered due to 5 fatalities at the Kandla unit, due to inhalation of toxic gas in the feed tank of the Effluent Treatment Plant (ETP). Although the Company continues to dispatch the products from the plant, the impact of the order and timeliness of resumption of production shall remain a key monitorable. CARE Ratings Limited (CARE Ratings) shall take a view on ratings once there is further clarity on the matter or its impact on the business and financial risk profile of the company.

The ratings, continue to derive strength from the company being a part of the established Kolkata-based Emami group with demonstrated fund-support to EAL in the past. EAL continues to have a sizeable scale of operations in the edible oil industry and has gradually increased its capacity over the years. The company has established brands 'Himani' and 'Emami' and continues to have a strong distribution network for its products with presence in more than 15 states across the country. The ratings also factor in its favourable working capital cycle.

Ratings continue to be constrained by significant cash losses incurred by the company in FY23 (refers to the period April 01 to March 31) & FY24 resulting in weakening in the debt protection metrics. Apart from the significant volatility in raw material procurement prices and unfavourable movement in the domestic market as against the hedged positions on commodity exchange in the first half of FY24, the profitability has also been impacted due to the inability to ramp up production along-with high brand building expenses. However, ratings take cognizance of improvement in performance in H1FY25, wherein performance is expected to sustain with company strengthening its risk management policies and implementing various measures to arrest losses. The ratings continue to remain constrained by limited value addition and intense competition. Furthermore, the significant dependence on import of raw materials exposes the company to foreign exchange fluctuation risk, commodity price fluctuation risk and regulatory risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-driven growth in scale of operations on a sustained basis through greater diversification.
- Improvement in PBILDT margin to more than 3% and PAT margin to more than 1% on a sustained basis.
- Improvement TOL/TNW to below 3.5x on a sustained basis.

Negative factors

- TOL/TNW remaining above 5x on a sustained basis.
- Significant decline sales volume leading to substantial degrowth in TOI.

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings Limited has considered the consolidated business and financial risk profile of EAL and Emami Biotech (Singapore) Pte Ltd (EBSPL). The subsidiary is engaged in trading, import, export of palm oil and other by-products and extension services. The list of companies being consolidated is given in **Annexure – 6**.

[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 strengths

Established promoter group with demonstrated fund support

EAL belongs to the Kolkata-based Emami group with Emami Limited (rated 'CARE AA+; Stable/ CARE A1+') being the flagship company of the group. The group is one of the leading manufacturers of herbal and Ayurveda products in personal, cosmetic and health care segments with market leadership in few of its products and presence across diverse business segments. The promoters have demonstrated continuous support towards fund requirement of EAL and funded around ₹938 crore in the form of unsecured loans which have been converted into zero coupon optionally convertible debentures with effect from October 01, 2021. CARE Ratings believes that the group will continue to extend support to EAL as and when required.

Established distribution network supported by branding and marketing arrangement

The product portfolio of EAL consists of a wide range of products including edible oils, de-oiled cake (DOC), vanaspati, specialty fats, bakery products, bio - diesel etc. However, more than 90% of the total sales are contributed by edible oil and balance by other products. Amongst edible oils, palm oil continues to be the major driver of revenue followed by soya oil. EAL has major presence in West Bengal, Uttar Pradesh, Bihar, Jharkhand, Odisha, Madhya Pradesh, Manipur, Assam and has also penetrated in Maharashtra, Tamil Nadu, Karnataka, Telangana, Haryana, Rajasthan, Punjab and Delhi for its edible oil business through a strong network of 2,200 distributors, 45 depots and through direct reach to 4,00,000 outlets. In FY24, EAL incurred ₹169 crore vis-à-vis ₹209 crore in FY23 towards marketing, selling branding expense to launch its product on a pan-India basis. The major brands under which EAL sells its products are 'Emami Healthy & Tasty', 'Himani Best Choice', 'Rasoi No.1' and 'BakeMagic'. In FY24, 60-65% (62% in FY23) of the sales of the company was generated from branded sales. The company has increased its geographical presence by adding new depots, modern trade channels and e-commerce partners. EAL has set up a 400 TPD solvent extraction plant along with 50 TPD refinery unit at Jaipur, Rajasthan to manufacture de-oiled cake and solvent mustard oil by way of forward integration to enable the company to process the oil cake which is produced by the existing Jaipur unit operations while manufacturing Kacchi Ghani Mustard Oil. The project was commissioned in April 2024 within the budgeted cost of ₹60 crore, as maintained by the management. EAL is also setting up a bio-diesel plant at Krishnapatnam unit. The budgeted cost for the biodiesel plant is ₹50 crore to be funded by way of rupee term loan to the extent of ₹37.50 crore and balance by way of own contribution / internal accruals. The project will enable the company to serve the demand of biodiesel in the Southern region.

Favourable working capital cycle

EAL opens Letter of Credits (LCs) for approximately six months for its raw material purchase and earmarks fixed deposits for the same. Furthermore, it is required to hold inventory (50-65 days), given the seasonality in edible oilseeds production and lack/non-availability of soybean/palm oilseeds in the domestic market. As the edible oil business is cash and carry in nature, the average collection period was low at around 8 days in FY24. With increase in both average creditors days and average inventory days, the operating cycle remained at 38 days in FY24 (39 days in FY23). On inclusion of creditors in the form of LC acceptances, the average working capital cycle stood negative at 38 days in FY24 (negative 24 days in FY23).

Stable demand outlook for edible oil industry

The long-term outlook of edible oil demand in India is favourable on the back of increasing population, increase in per capita consumption which in turn would be driven by changing lifestyles, growing urbanization, increasing proportion of middleclass population and steadily rising affluence levels. In FY23 and FY24, there has been significant volatility in the edible oil industry with sudden changes in the raw material prices. However, long term demand outlook remains stable.

Liquidity: Adequate

EAL had total cash and bank balance of ₹1,600 crore (including margin money of ₹1,408 crore) as on March 31, 2024. The company incurred cash loss of ₹504 crore (adjusted) in FY24, which was funded out of liquidation of inventory and increase in borrowings. The company does not have significant fund -based working capital limits apart from an overdraft limit of ₹20 crore which is fully unutilized. For its imports, EAL avails letter of credit which results in higher requirement of non-fund-based limits. The acceptances remained a major source of debt financing for EAL with outstanding acceptances constituting around 69% of total gross debt as on March 31, 2024. The company had scheduled term debt repayment obligation of around ₹205 crore in FY24 which was paid out of cashflow from operations. Further, it does not have any major capex plans in the medium term. Financial flexibility due to EAL being a part of the Emami group and need-based fund infusion from the group also aids its liquidity.

Key weaknesses

Subdued financial performance in FY24; Improvement in H1FY25

The total operating income of the company (standalone) witnessed significant decline in FY24 on y-o-y basis with lower realisations. Significant volatility in raw material procurement prices and unfavourable movement in the domestic market as against the hedged positions on commodity exchange led to losses in FY23 which continued in FY24. The profitability was also been impacted due to the inability to ramp up production along-with high brand building expenses. Also, the capacity utilisation for the manufacturing units remained low, which further led to lower absorption of fixed costs. High selling expenses to the tune of ₹169 crore in FY24 and higher forex losses also adversely impacted its profitability. However, the company has booked reversal of provision for statutory dues of ₹551 crore due to which the PBILDT turned positive in FY24. With subdued operating performance and higher finance cost (₹397 crore in FY24), the company incurred cash loss of around ₹504 crore in FY24 which was funded out of liquidation of inventory and increased borrowings.

Further, the company has started operating its bio-diesel plant (10,000 MT capacity per month) which generates higher operating margins and is currently setting up another plant at Krishnapatnam.

Financial performance witnessed improvement in H1FY25, wherein performance is expected to improve further with company strengthening its risk management policies and implementing various measures to arrest losses and improve profitability. The ability of the company to recover its profitability going forward with expected stabilization of prices and improvement in demand, remains a key rating monitorable.

Moderation in capital structure and debt coverage indicators

The total debt witnessed an increase as on March 31, 2024 compared with March 31, 2023 despite reduction in scale of operations. Against the acceptances, the company has margin money in the form of fixed deposits and on considering the same, net overall gearing stood at 1.96x as on March 31, 2024 (1.73x as on March 31, 2023). Overall gearing on gross debt basis stood at 3.11x as on March 31, 2024 as against 2.88x as on March 31, 2023. The promoters have infused significant amount of unsecured loans (subordinated to bank debt) over the years amounting to ₹938 crore which were converted into optionally convertible debentures in FY22. Further, in November 2022, the company raised equity of ₹30 crore from an investor. On account of cash losses incurred by the company in FY24, debt coverage indicators witnessed significant moderation. However, the same is expected to improve in FY25.

Low profit margin in the industry due to low value addition and intense competition

The operating margin of edible oil refiners are generally low owing to low value addition involved in the business and intense competition. The industry is highly fragmented with presence of large number of small-sized players and few large players in the branded segment. The intense competition in the industry also exerts pressure on the operating margin. However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase which bodes well for branded refined oil players. In August 2019, EAL entered into the spices category with the brand 'Emami Healthy and Tasty Mantra'. Spices business is relatively high profit margin and expected to provide diversification to the company's existing edible oil business; though the pace of its pick up is relatively slow. The company had also launched soya chunks in FY21 and also focusing on bio-diesel.

Significant dependence on import of raw material exposes EAL to foreign currency fluctuation risk

Raw material cost accounted for around 95%-96% of total cost of sales of EAL during the last three years. Major raw materials required by EAL are crude palm oil (CPO) and crude soya oil (CSO). EAL is significantly dependent on imports for procurement of CPO (from Indonesia and Malaysia) and CSO (from Latin America, Brazil and Argentina) in view of lack of availability in domestic market. Accordingly, EAL is exposed to foreign currency fluctuation risk. In order to safeguard itself from forex risk, EAL hedges its payables for the imports of raw materials at the time it sells its finished goods.

Volatile raw material and finished goods prices

The price of the domestic oil is directly dependent on the international crude edible oil price. EAL is exposed to volatility in raw-material prices as the cash conversion cycle from procurement of raw material to realization from sale of processed edible oil is estimated to be around six months. Accordingly, EAL enters into forward sale contract on the commodity exchange, immediately on entering into raw-material procurement contract, in order to mitigate the aforementioned price volatility risk. In FY23, both CPO and CSO prices had witnessed a sharp decline from May-June 2022 to September 2022 which led to losses to EAL on account of high inventory in hand. However, the sharp volatility within a short span of time had led to losses/dip in profitability for the edible oil industry in current year. Sunflower oil and palm oil supplies which took a hit in oil year 2021-22 rebounded in the subsequent oil year, leading to continued decline in CPO and CSO prices.

Regulatory risk associated with edible oil industry

The price of palm oil imported by India, from the largest exporters of the commodity in the world, i.e., Indonesia and Malaysia, are affected by the frequent duty structure changes done by the respective governments to protect their domestic industries. The price differential for carrying out refining operations in India depend upon the difference in duty between the export duty levied by the exporters on CPO and RPO and the import duty on the same by India. In order to protect the domestic players from cheap edible oil imports, government imposes import duty on both crude and refined oils. Accordingly, EAL is exposed to adverse changes in regulatory and import/export duty structures.

Applicable criteria

Definition of Default
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

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	Edible Oil

EAL, belonging to the Emami group of Kolkata, is engaged in refining of various edible oils (palm, soya, sunflower, rice bran, mustard & vanaspati). Over the years, EAL has emerged as one of the leading players in the Indian edible oil industry with a pan-India presence and dominant position in the eastern region. The oil processed/refined by EAL is sold under the brand name of 'Himani Best Choice' (in the popular segment) and 'Emami Healthy & Tasty' (in the premium segment). EAL entered the Vanaspati oil market with acquisition of the 60-year-old brand 'Rasoi' in FY15. Moreover, for forward integration, it has expanded the product portfolio to include value -added products used in bakery industry, sold under the brand name 'Bakemagic'. In August 2019, 'Emami Healthy and Tasty' entered into the spices category with the launch of its sub-brand 'Mantra' – a range of 100% natural and fresh spices, masalas and tastemakers. The company has an installed capacity of 11,400 TPD refinery for edible oils.

Brief Consolidated Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	18,729	14,210
PBILDT	-107	395
Adjusted PBILDT^	-107	-156
PAT / (Net loss)	-371	34
Overall gearing (times)	2.88	3.11
Adjusted Overall gearing (times)$	1.73	1.96
TOL/TNW	4.47	4.22
Interest coverage (times)	NM	1.00

^Adjusting for reversal of provision against statutory accruals; $ Total debt net of margin money.
A: Audited, NM: Not Meaningful
Note: 'the above results are latest financial results available'

Brief Standalone Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	18,599	14,202	8,386
PBILDT	-141	388	353
Adjusted PBILDT ^	-141	-163	353
PAT / (Net loss)	-372	29	105
Overall gearing (times)	2.69	2.90	NA
Adjusted Overall gearing (times)$	1.70	1.99	NA
Interest coverage (times)	NM	0.99	1.89

^Adjusting for reversal of provision against statutory accruals; $ Total debt net of margin money.
A: Audited, UA: Unaudited, NA: Not Available, NM: Not Meaningful
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 the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of the covenants of the rated facilities is given in Annexure-3

Complexity level of the various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of 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-Term Loan		-	-	31/03/2029	872.06	CARE BBB+ (RWN)
Non-fund-based - ST-Bank Guarantee		-	-	-	80.00	CARE A2 (RWN)
Non-fund-based - ST-Letter of credit		-	-	-	6190.40	CARE A2 (RWN)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the 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	872.06	CARE BBB+ (RWN)	1)CARE BBB+; Stable (05-Apr-24)	1)CARE A-; Negative (17-Jul-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Dec-21)
2	Non-fund-based - ST-Letter of credit	ST	6190.40	CARE A2 (RWN)	1)CARE A2 (05-Apr-24)	1)CARE A2+ (17-Jul-23)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (07-Dec-21)
3	Non-fund-based - ST-Bank Guarantee	ST	80.00	CARE A2 (RWN)	1)CARE A2 (05-Apr-24)	1)CARE A2+ (17-Jul-23)	1)CARE A2+ (06-Jan-23)	1)CARE A2+ (07-Dec-21)
4	Term Loan-Long Term	LT	-	-	1)Withdrawn (05-Apr-24)	1)CARE A-; Negative (17-Jul-23)	1)CARE A-; Stable (06-Jan-23)	1)CARE A-; Stable (07-Dec-21)
5	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Jan-23)	1)CARE A-; Stable (07-Dec-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

Annexure-4: Complexity level of the various facilities rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Emami Biotech (Singapore) Pte Ltd	Full	Subsidiary

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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