Adani Wilmar Limited (Revised)

July 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	15,711.00 (Enhanced from 11,950.00)	CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Revised from CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)
Long-term bank facilities-term loan^	-	-	Withdrawn
Total bank facilities	**15,711.00 (₹ Fifteen thousand seven hundred eleven crore only)**		
Commercial paper (Carved out)*	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**500.00 (₹ Five hundred crore only)**		

Details of instruments/facilities in Annexure-1.
^CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the term debt based on the receipt of no dues certificate from the lenders.
*Carved out of the sanctioned working capital limits of the company.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities and short-term instrument of Adani Wilmar Limited (AWL) takes into account the augmentation of capital base and strengthened financial flexibility of AWL post successful raising of funds of ₹3,600 crore through initial public offer (IPO). Raising of equity has augmented the networth base of the AWL to ₹7,369 crore as on March 31, 2022, which along with prepayment of its large portion of the term debt has led to significant improvement in leverage marked by total outside liabilities (TOL) to tangible networth (TNW) of 1.47 times as on March 31, 2022 as against TOL/TNW of 2.84 times as on March 31, 2021.
The rating also factors in the growth in the scale of operations during FY22 (refers to the period from April 01 to March 31) led by volume growth as well as higher edible oil prices, stable and range-bound operating margins, expansion in its distribution network and strong liquidity position of AWL despite working capital intensive nature of operations.
The ratings continue to factor in its strong parentage, being a part of the Adani group and 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), 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, AWL's strategically-located port base as well as inland edible oil manufacturing and storage facilities providing logistical advantages, leadership position in the edible oil segment with its well-established 'Fortune' brand, and its diversified product portfolio which continues to support the rating.
The above rating strengths are tempered by moderate debt protection indicators on account of working capital intensive operations owing large product range, exposure to agro-climatic risks in procurement of raw materials along with its susceptibility to volatility in the crude edible oil prices as well as foreign exchange rates, regulatory risk associated with duty structure, the inherent project risk associated with the upcoming capex related to food segment and its presence in the competitive edible oil industry leading to moderate profitability. The ratings also take the note of the relatively moderate scale of operations from Food & FMCG products segment albeit with some improvement in performance during FY22.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant expansion in PBILDT per MT while generating envisaged returns from Food & FMCG products segment and managing working capital requirements.
- Improvement in interest coverage and total debt to PBILDT while maintaining volume growth on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in TOL/TNW to greater than 2.50 times on a sustained basis.
- Non-adherence to prudent risk management practices to manage commodity price and foreign exchange fluctuation risk.
- Significant deterioration in debt coverage indictors.

[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 rating strengths

Augmentation of networth base and strengthening of financial flexibility post raising of funds through IPO

AWL has completed its IPO aggregating to ₹ 3,600 crore during February 2022. Raising equity has augmented AWL's networth base to ₹ 7,369 crore as on March 31, 2022, compared to ₹ 3,052 crore as on March 31, 2021. Augmentation of networth along with prepayment of its large portion of the term debt has led to significant improvement in leverage marked by total outside liabilities (TOL) to tangible networth (TNW) of 1.47 times as on March 31, 2022 as against TOL/TNW of 2.84 times as on March 31, 2021.
Furthermore, AWL has a market cap of ₹ 82,295 crore as of July 26, 2022, strengthening its financial flexibility.

Steady growth in scale of operations and range-bound profitability during FY22

AWL's total operating income (TOI) has registered a y-o-y growth of 41% from ₹ 37,162 crore during FY21 to ₹ 52,448 crore during FY22, driven by higher edible oil prices. The sales volume of edible oil- registered a y-o-y growth of 7% to 30.62 lakh MT during FY22, led by a growth of 16% in rice bran oil followed by 13% and 9% growth in soybean and palm oil respectively. The mustard oil registered a flat growth during FY22 while sunflower oil continues to register a de-growth during FY22. The same was on account of increase in the prices of sunflower oil resulting into shift in demands towards other oils.
Despite volatile edible oil prices, the operating margins of AWL remained range bound as against the volatility witnessed in the operating margins of few industry players. The prudent risk management practices followed by AWL shields the operating margins from any volatility and margins continued to remain range bound during FY22.
The PBILDT margins reduced marginally by 32 bps and remained at 3.46% during FY22 as compared to operating margin of 3.78% during FY21 mainly on account impact of higher denominator owing to an exceptional surge in the crude edible oil prices. Moreover, in line with the increase in sales volume, the PBILDT per tonne of edible oil has consistently improved over the years. Furthermore, AWL reported gross cash accruals of ₹ 1,133 crore during FY22 as against GCA of ₹ 747 crore during FY21.

Market leader in edible oil segment along with diversified product portfolio

AWL continues to enjoy leadership position with single-largest market share in domestic edible oil industry. AWL ranks on the top in soyabean oil, mustard oil and rice bran oil and ranks amongst top three players in palm oil and sunflower oil. The company has also established a wide network of distributors and stock points apart from more than 18 lakh retail outlets which provide cost competency for selling Food & FMCG products under the same distribution channel.
The product portfolio of AWL consists of a wide range of products including edible oils, non-edible oil, de-oiled cake (DOC), vanaspati, specialty fats, Food & FMCG products, oleo chemicals etc. During FY22, edible oil contributed to around 82% of the company’s total sales, while non-edible oil, vanaspati and by-products like oleo-chemicals contributed majorly to the remaining portion. Amongst edible oils, soyabean oil continues to be the major driver of revenue followed by palm oil and sunflower oil. Diversified sales mix within the edible oil segment has shield AWL against global uncertainty like Russia-Ukraine war as compared to its peers.

Strong parentage and operational synergies with Wilmar group’s businesses

AWL derives strength from the parentage of both Adani Enterprises Limited (AEL; rated ‘CARE A+; Stable/CARE A1+’) and the Wilmar group. The parentage of AEL provides the company with the required financial flexibility for its business and technical/managerial resources owing to AEL’s vast experience in trading and logistics business across the country. The Singapore -ased 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 as well as grain processing and storage facilities. Archer Daniels Midland Co. (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 Wilmar International Ltd (WIL) further strengthening the parentage. The business of AWL has strong operational synergies with that of the Wilmar group, which provides it with global linkages for its procurements, mainly crude palm oil, as well as marketing and distribution linkages for its edible oil products. WIL has also supported the operations of AWL through extension of unsecured line of credit. In addition to all the above, AWL enjoys the receipt of quality real-time price information and future estimates from WIL which has operations both in the producing regions as well as consuming regions.

Strategically located port-based and inland manufacturing and storage facilities providing logistical advantages

AWL’s manufacturing facilities are located at the major procurement centres of its raw materials, i.e., seeds and crude edible oil, translating into lower logistics costs for procurement of materials and centralised storage facilities for crude as well as processed oil and other products. While the port-based facilities of the company are engaged in refining of 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; the inland facilities manufacture various refined oils & process the Food & FMCG products and are located around the respective cultivation/procurement region.

Well-defined risk governance structure

AWL has a defined system for hedging of its commodity price exposure as well as foreign exchange risk wherein risk tolerance limit and stop-loss limits are set for various commodities across different hierarchy in the company and policy has been defined for hedging of foreign exchange exposure. This has largely enabled the company to maintain its PBILDT per tonne amidst volatile forex and commodity markets. The risk limits are defined as per the minimum hedge ratio as decided by the risk committee.

Completion of capex in oleochemical segment and industry essentials

There has been steady growth in scale of operations of essential products due to expansion of oleochemical segment. The sales of industrial essentials increased by 30% during FY22 compared to FY21 due to completion of the on-going capex at Mundra, Gujarat during FY22. Going forward, with FY23 being the first full year of operations for the completed capex, the contribution of oleochemical is expected to increase.

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. Demand from edible oil was moderately impacted during FY21 and FY22 due to the impact of COVID-19 on hotel, restaurant & catering (HORECA) segment. However, growth from the HORECA segment is expected to recover during FY23. Packaged Food & FMCG products are expected to grow at a CAGR of around 10-12% till 2025.

Key rating weaknesses

Moderate debt protection indicators

Despite 41% growth in its scale of operations during FY22, the company's total net debt increased marginally from ₹ 6,192 crore as on March 31, 2021, to ₹ 7,637 crore as on March 31, 2022, due to increase in working capital intensity owing surge in commodity prices. Relatively moderate profitability and higher working capital debt led to moderate total debt/PBILDT of 4.21 times during FY22.

Interest coverage, though improved from FY19 levels, continued to remain moderate at 3.45 times during FY22. Going forward, debt coverage indicators are expected to improve as no new term debt is envisaged.

Significant growth in Food & FMCG products albeit with modest profitability

There has been significant growth in the scale of operations in Food & FMCG products by 30% during FY22 mainly due to healthy volume growth in rice and wheat flour. Furthermore, AWL has acquired "Kohinoor" brand of basmati rice during Q1FY23, and this is expected to expand its presence in rice segment. Nevertheless, the profitability from the Food & FMCG segment continued to remain subdued with minor EBIT loss of ₹ 22 crore during FY22. Performance of Food & FMCG products is expected to be PBILDT-neutral in the near term owing to the company's strategy to spend more on marketing/advertising for the increasing market share. Going forward, generation of the envisaged benefits from Food & FMCG products and improvement in its profitability shall remain one of the key rating monitorables.

Project risk associated with planned capex related to food segment to be incurred from IPO proceeds

AWL is currently undertaking the ongoing capex related to oleo and food products to the tune of ₹ 1,227 crore. AWL has phased out capex over three years FY20-FY22. Of the committed capex, AWL has saved around ₹ 200 crore for the completed projects and around ₹ 250 crore of capex is remaining for plant upgradation and automation which is envisaged to be completed during FY23.

AWL has planned to undertake a capex of ₹ 2,200 crore during FY23-FY25 to expand capacity in refining, crushing and Food & FMCG products to further diversify its revenue stream. The same is to be funded through IPO proceeds and internal accruals and no debt-funded capex is envisaged in the medium term. However, AWL is exposed to the inherent post-implementation risk mainly in Food & FMCG products segment considering competition from large players. Going forward, AWL's ability to generate the envisaged benefits from the completed projects, mainly in Food & FMCG products and the oleo chemical segment, is crucial.

Exposure to volatility in crude edible oil prices, forex rates and regulatory changes; albeit defined risk management policies followed by the company to mitigate the same

Prices of crude edible oil in all major categories have surged by approximately 200% from May 20 to May 22, 2022. Export ban on palm oil by Indonesia, Ukraine war, labour shortages in palm oil plantation in Indonesia & Malaysia, lower production of beans in South America due to adverse weather conditions and global supply chain issues are the prominent reasons for surge in prices. Nevertheless, lifting of export ban on palm oil by Indonesia, improved global supply situation along with tariff free import of crude

sunflower and crude soyabean oil by Government of India has led to the prices softened by 20-25% during June 2022 from peak prices of May 2022. Volatility in prices along with dependence on imports and global agro-climatic conditions exposes AWL on various industry-specific risk.
Additionally, as AWL imports around 80% 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 along with the regular review of the processes mitigates the risk to an extent.

Liquidity: Strong

Liquidity position of the company strengthened further post raising of funds through IPO. AWL had free cash and bank balance of ₹ 2,604 crore as on March 31, 2022, mainly because of unutilised IPO proceeds, which are expected to be used in capex over the next 2-3 years.
The average collection period of AWL remained stable at 13 days during FY22. The average inventory holding period remained range bound at 45 days during FY22. 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 during FY22 with outstanding (net) acceptances constituting majority of total debt as on March 31, 2022. Nevertheless, AWL had finished goods inventory of ₹ 4,147 crore as on March 31, 2022 (30 days); out of which large portion can be considered readily marketable inventory as against the outstanding acceptances. Furthermore, the average utilisation of fund-based limits remained low at 3% during the 12 months ended May 2022 while the non-fund-based limits were utilised up to 90% during the 12 months ended May 2022.

Analytical approach

Standalone factoring financial flexibility from strong parentage and operational synergies with Wilmar International Ltd.

Applicable criteria

Criteria on assigning 'outlook' or 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology-Manufacturing Companies
Factoring Linkages in Ratings
Policy on Withdrawal of Ratings
Financial ratios – Non-Financial Sector

About the company

Incorporated in January 1999, AWL is an equal joint venture between the Gujarat-based, Adani group and Singapore-bsed Wilmar Group. As on March 31, 2022, the company had an installed capacity of 16,285 TPD of crude oil refining and 8,525 TPD of crushing with a combination of port-based and inland manufacturing facilities at more than 22 locations across India. On February 08, 2022, AWL has completed its IPO and the issue comprised of fresh issue of 15,67,29,745 equity shares aggregating to ₹ 3,600 crore. The promoter stake stood at 87.94 % as on March 31, 2022 post IPO with equal holdings from AEL and the Wilmar group.

Brief financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	37,162	52,447	NA
PBILDT	1,403	1,812	NA
PAT	655	808	NA
Overall gearing (times)	2.03	1.04	NA
Interest coverage (times)	3.45	3.45	NA

A: Audited; NA: Not Available
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

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 instruments/facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

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 along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
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+
Commercial Paper-Commercial Paper (Carved out)		-	-	7-364 days	500.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A+; Stable (02-Aug-21) 2)CARE A+; Stable (07-Jul-21)	1)CARE A; Positive (07-Sep-20)	1)CARE A; Stable (19-Sep-19)
2	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST*	1150.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)	1)CARE A; Positive / CARE A1 (07-Sep-20)	1)CARE A; Stable / CARE A1 (19-Sep-19)
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	5538.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)	1)CARE A; Positive / CARE A1 (07-Sep-20)	1)CARE A; Stable / CARE A1 (19-Sep-19)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	9023.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)	1)CARE A; Positive / CARE A1 (07-Sep-20)	1)CARE A; Stable / CARE A1 (19-Sep-19)
5	Commercial paper-Commercial paper (Carved out)	ST	500.00	CARE A1+	-	1)CARE A1+ (02-Aug-21)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT/ ST-CC/PC/Bill dscounting	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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