Adani Wilmar Limited

September 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,427.00	**CARE A; Positive (Single A; Outlook: Positive)**	**Reaffirmed and Outlook revised to 'Positive' from 'Stable'**
Long-term/ Short-term Bank Facilities	8,537.50	**CARE A; Positive/ CARE A1 (Single A; Outlook: Positive/ A One)**	**Reaffirmed and Outlook revised to 'Positive' from 'Stable'**
Total Facilities	**10,964.50 (Rupees Ten Thousand Nine Hundred Sixty Four Crore and Fifty Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Adani Wilmar Limited (AWL) continue to factor in its strong parentage, being a part of Adani group and 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 Wilmar group's businesses and a defined risk management policy being followed by the company for hedging its foreign exchange and commodity risk. The ratings also continue to factor AWL's strategically located port-based as well as inland edible oil manufacturing and storage facilities providing logistical advantages, widespread distribution network in the domestic market with AWL being a market leader in the edible oil segment with its well-established 'Fortune' brand, and its diversified product portfolio. The ratings also factor steady growth in scale of operations driven by consistent growth in sales volume of edible oil on the back of addition of refinery capacities and expansion in the distribution network.

The ratings, however, continue to remain constrained by AWL's leveraged capital structure and moderate debt coverage indicators on account of high debt levels due to execution of large-size capex and working capital intensive operations. Further, the ratings continue to remain constrained by 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 and its presence in a competitive edible oil industry leading to moderate profitability. The ratings are further constrained by relatively lower revenue from other agro products segment being new entrant and inherent risk associated with proposed large-size capex plan.

Key Rating Sensitivities:

Positive:

- Significant growth in cash accruals while scaling up of other agro products and generating envisaged returns from the completed projects.
- Improvement in the capital structure i.e. TOL/TNW to below 2.75 times on a sustained basis

Negative:

- Non-adherence to prudent risk management practices to manage commodity price and foreign exchange fluctuation risk.
- Meaningful reversal in the current trajectory of improving PBILDT margins.

Outlook: Positive

The positive outlook reflects the expected improvement in the capital structure on account of the phasing out of the on-going capex programme to three years (FY20-22) from two years earlier (FY20-21) and benefit from the completed capex as well as strong distribution network. Further, the change in outlook also reflects expectation of PBILDT margins of around 4.75% on a sustainable basis as compared to past trend of near 4% PBILDT margins on account of increase in sales of soft oil and other agro products. During the Covid-19 induced lockdowns, the demand deficit from Hotels, Restaurants and Catering (HoReCa) segment was filled by demand from the household segment for the soft oils like Soya, Sunflower and Mustard which augur well for the margin prospects of AWL.

CARE Ratings shall closely monitor the growth in revenue of other ago product segment, benefit of completed projects and its impact on the profitability and capital structure of AWL. The outlook may be revised to 'stable' in case of large sized debt

[1]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

funded capex announced by AWL impacting the capital structure and debt coverage indicators from the levels of March 31, 2020.

Detailed description of the key rating drivers
<u>Key Rating Strengths</u>
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 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 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, fertilizers 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 20% 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 centers of its raw materials, i.e. seeds and crude edible oil, translating into lower logistics costs for procurement of materials and centralized 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 USA which are major exporters of crude edible oil, such as palm, soya and sunflower; the inland facilities manufacture various refined oils and are located around the respective cultivation/procurement region. With the new Hazira green-field refining capacity (2,500 tonne per day (TPD)) achieving COD, it will add to the logistical advantage as Hazira is located on the Southern Gujarat coastline and will cater to the West and South-west regional markets.

Leading position in edible oil segment in India along with a diversified product portfolio
During FY20 (refers to the period April 1 to March 31), AWL continued to maintain its market leadership position in edible oil segment in India. Over the years, the 'Fortune' brand of AWL has established leadership position in the branded edible oil segment. As per the recently published Nielsen Retail Survey, AWL achieved 10,000 crore of branded retail sales during CY19 with growth of 17.90% indicating strong presence of AWL. The company has also established a wide network of distributors and stock points apart from more than 17 lakh retail outlets which provide cost competency for selling other agro products under 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, other agro food products, oleo chemicals etc. During FY20, edible oil contributed to around 75% of the company's total sales with non-edible oil, vanaspati and by-products like oleo-chemicals contributing majorly to the remaining portion. Amongst edible oils; the share of soya oil rose to 41% during FY20 from 39% during FY19 while the share of palm oil declined to 25% from 28% over the same period owing to change in the consumption pattern and expansion in the soft oils segment.

Well-defined risk governance structure
AWL has a defined system for hedging of its commodity price exposure as well as foreign exchange risk where in 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 margin amidst volatile forex and commodity markets. The risk limits are defined as per the minimum hedge ratio as decided by the risk committee which comprises of top level management. Further, there is regular review of independent control processes as well as the presence of early warning mechanism to prevent potential breaches of the processes. AWL also derives benefits from its association with Wilmar group which is the largest player of palm plantation in the world and largest soya and rape seed crusher in China. AWL has access to real time market information due to its association with Wilmar group which provides it with competitive edge in decision making.

Steady growth in scale of operations along with marginal but consistent improvement in PBILDT margins amid volatility in the commodity and forex markets
AWL's total operating income (TOI) grew by about 3% during FY20 to Rs.29,768 crore as compared to FY19 in spite of lower exports of non-edible oil and stock clearance throughout the distribution network on account of the Covid-19 outbreak. TOI was driven by a volume growth of 6.59% for edible oil wherein the growth was seen in the sales of the soft oils basket with

Soya oil posting a volume growth of 11%, mustard oil with 21.39% growth and sunflower oil with 3.65% volume growth. Further, AWL's PBILDT margins improved from 4.18% during FY19 to 4.81% during FY20 on account of benefit from sales mix with higher sales of soft oils where the margins are better while maintaining prudent hedging policies.
AWL recorded 1.19% growth in revenue to Rs.7586 crore during Q1FY21 in spite of strict lockdown in the country on account of its products being under essential items category during lockdown and higher retail sales. Furthermore, profitability improved due to higher sales from retail segment which has better profitability as compared to institutional sales and sales to HoReCa.
TOI grew at healthy compounded annual growth rate (CAGR) of 14% during FY16-FY20 mainly on the back of steady increase in sales volume of edible oil.

Liquidity Analysis

Adequate liquidity indicators despite working capital intensive operations: Average collection period of AWL increased from 12 days during FY17 to 16 days during FY19 mainly due to increase in sales of other agro products although there was exceptional reduction to 13 days during FY20 mainly due to lower sales of March 2020. Average inventory holding period was 52-53 days in the past. For its imports, AWL avails letter of credit backed credit from its suppliers leading to lean operating cycle. This results in higher requirement of non-fund based limits, the utilization of acceptances remained a major source of debt financing for AWL during FY20 with outstanding (net) acceptances constituting 60% of total debt as on March 31, 2020. Nevertheless, AWL had finished goods inventory of Rs.1,433 crore as on March 31, 2020 (22 days); out of which large portion can be considered readily marketable inventory as against the outstanding acceptances. Further, the average utilization of fund-based limits remained comfortable at 18.70% during the twelve months ended June 2020 while the same for non-fund based limits remained moderate at around 89% as the company mainly uses trade credit limits. Moreover, WIL's unsecured line of credit also aids liquidity of AWL.
The free cash and bank balance improved to Rs.346 crore as on March 31, 2020 from Rs.78 crore as on March 31, 2019 on account of phasing out of capex and improved collection in March 2020. AWL has also not availed any moratorium granted by Reserve Bank of India (RBI) during current Covid-19 pandemic.

Key Rating Weaknesses

Inherent project risk

AWL has completed projects aggregating to about Rs.1500 crore with lower than envisaged spending during FY19 (Refers to the period from April 01 to March 31) and FY20 in phase wise manner. This include expansion in refining capacity by 68% to 15,765 TPD at different locations and capex in other agro products. However, fixed asset turnover ratio declined from 11 times during FY18 to 7.68 times during FY20 indicating yet to yield envisaged benefits. AWL envisages benefits of completed projects from October 2020 with increased capacity utilization for Hazira green field refinery. Apart from above capex, AWL had ongoing capex of Rs.1553 crore for expanding capacity in Oleo chemical, mustered oil and the other agro-based products to further diversify its revenue stream and improve profitability. Total capex was envisaged to be executed in FY20 and FY21. However, AWL has phased out this capex from two years to three years considering covid-19 pandemic with some savings in total project cost which is expected to provide cash flow cushion in the near term. However, AWL is exposed to inherent post implementation risk mainly in other agro products segment considering competition from large players and relatively new entrant position of AWL in other agro commodity segment. Going forward, AWL's ability to generate the envisaged benefits from completed projects mainly in other agro products and oleo chemical segment are crucial.

Leveraged capital structure on account of high debt level owing to large size capex and working capital intensive operations.

Total outside liabilities to tangible net worth (TOL/TNW) of AWL improved from 3.96 times as on March 31, 2019 to 3.22 times as on March 31, 2020 on account of deferral of term loan disbursement and payment of clean creditors of Wilmar group to the tune of Rs.998 crore. However, it continued to remain inferior as compared to other players in the industry mainly on account of debt funded capex of around Rs.2400 crore from FY18-FY20. Further, total net debt increased from Rs.5,048 crore as on March 31, 2019 to Rs.5,699 crore as on March 31, 2020 on account of drawl of term debt to finance the execution of capex project and increased weightage of acceptances in the payables mix.
Interest coverage continued to remain moderate at 2.44 times during FY20. Going forward, leverage and debt coverage indicators are expected to improve on account of lower than earlier envisaged debt levels due to phasing out of capex and stable profitability due to increase in share of soft oil and other agro products.

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

AWL's profitability is exposed to sudden and sharp volatility in the prices of crude edible oil, which are in turn highly dependent upon various factors including cost of imports, agro-climatic conditions in the major cultivation regions as well as minimum support price (MSP) for various raw materials procured from the domestic market. At times, oilseed crushing

operations become economically unviable due to higher oilseed prices in India compared to those available in the international markets. Furthermore, with effect from January 08, 2020; palm oil was placed under restricted category for imports requiring a license or special permission to import the oil. Also, the duty differential between the crude and refined palm was reduced to 7.50% from 10% earlier. This further reduced the parity for the Indian refiners in the market for palm oil.
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.

Moderate profitability on account of high competitive intensity and limited value addition albeit with gradual improvement
PBILDT margins steadily improved from 3.85% during FY18 to 4.81% during FY20 on account of discontinuation of sugar trading business, established brand of the company and increase in sales of soft oil. However, it continued to remain moderate on account of high competitive intensity, limited value addition in the industry and relatively small scale of operations in the other agro products segment. Furthermore, ramp up of sales of other agro products like wheat flour, besan, rice, soya nuggets etc. is lower than earlier expectations which also pulls down overall profitability of AWL.

Stable outlook for edible oil market amidst consumption shift to soft oils from palm oil during the lockdown with demand recovery seen in June and July
India is the largest importer of edible oil in the world with annual consumption of around 23-25 million metric tonne (MMT). However, the demand from the HoReCa segment has been hit by the lockdown imposed to tackle the Covid-19 pandemic. As a consequence, there has been a temporary consumption shift towards soft oils from palm oil which has better profitability. A recovery in economic activity since June 2020 led to year-over-year (Y-o-Y) increase of 8% in imports of edible oil for June 2020 and 13% increase for July 2020. The recovery of demand from bulk consumers shall hinge upon the relaxation in restriction on social gatherings.

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

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Liquidity Analysis of Non-Financial Sector Entities]
[Rating Methodology: Factoring Linkages in Ratings]
[CARE's Methodology for Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Incorporated in January 1999, AWL is an equal joint venture between Gujarat, India based Adani group and Singapore based Wilmar Group. As on March 31, 2020, the company had an installed capacity of 16,515 TPD of crude oil refining and 8,225 TPD of crushing with a combination of port based and inland manufacturing facilities at more than 15 locations across India.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	28,917	29,768
PBILDT	1,208	1,431
PAT	365	395
Overall gearing (times)	2.52	2.38
Interest coverage (times)	2.62	2.44

A: Audited
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
As per provisional financials of Q1FY21, AWL reported TOI of Rs.7,586 crore and profit before tax (PBT) of Rs.287 crore as compared to a TOI of Rs.7,497 crore and PBT of Rs.196 crore for Q1FY20.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2027	2427.00	CARE A; Positive
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	1150.00	CARE A; Positive / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	4887.50	CARE A; Positive / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	2500.00	CARE A; Positive / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2427.00	CARE A; Positive	-	1)CARE A; Stable (19-Sep-19)	1)CARE A; Stable (10-Sep-18)	1)CARE A; Stable (01-Sep-17)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	1150.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (19-Sep-19)	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4887.50	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (19-Sep-19)	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	2500.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (19-Sep-19)	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)

Annexure-3: Complexity Level of various facilities rated for this company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based/Non-fund-based-LT/ST	Simple
4.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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