Adani Wilmar Limited

September 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,516.00 (enhanced from Rs.1,697.00 crore)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	8,537.50 (enhanced from Rs.7,419.50 crore)	**CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)**	**Reaffirmed**
Total Facilities	**11,053.50 (Rupees Eleven Thousand and Fifty Three 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, its 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 optimum utilization thereof. CARE Ratings also notes that AWL; which was earlier selected as the highest bidder for acquiring Ruchi Soya Industries Limited (RSIL) under the Corporate Insolvency Resolution Process (CIRP); has now opted out of the bid for the acquisition citing procedural delays.

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. 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 lower revenue from other agro products segment being new entrant and proposed large-size capex plan.

AWL's ability to generate envisaged returns from the completed projects, significantly improve its operating profitability by scaling up its operations mainly in the segments other than edible oil along with improvement in its leverage and debt coverage indicators; and its continued adherence to prudent risk management practices to manage commodity price and foreign exchange rate fluctuation risk shall be the key rating sensitivities.

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 19.26% 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.

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

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 and others which are major exporters of crude edible oil, mainly palm, the inland facilities manufacture various refined oils and are located around the respective cultivation/procurement region.

Leading position in edible oil segment in India along with a diversified product portfolio
During FY19 (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. The company has also established a wide network of distributors and stock points apart from more than 10 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 products, oleo chemicals etc. During FY19, edible oil contributed to around two-third 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; soya and palm together contributed around two-third while other oils including sunflower and mustard made up for the remaining portion during FY19.

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 due to growth in sales volume of edible oil
AWL's total operating income (TOI) grew from Rs.26,396 crore during FY18 to Rs.28,917 crore during FY19 driven by volume growth in the edible oil on the back of benefit of added capacities. TOI grew at healthy compounded annual growth rate (CAGR) of 18% during FY16-FY19 mainly on the back of steady increase in sales volume of edible oil.

Liquidity Analysis
Adequate liquidity indicators despite Increase in working capital intensity: The average gross working capital cycle steadily increased from 59 days during FY17 to 69 days during FY19 on account of higher credit period allowed to institutional clients as well as increase in inventory days due to increase in import duty. This has increased working capital requirement of AWL considering its large size. However, average collection period though increased remained comfortable at 16 days during FY19. For its imports, AWL avails LC backed credit from its suppliers. The utilization of acceptances increased during FY19 on account of discontinuation of buyers' credit leading to higher average creditors' period of 69 days during FY19. Nevertheless, AWL had finished goods inventory of Rs.1,902 crore as on March 31, 2019 (26 days); out of which large portion can be considered readily marketable inventory as against gross outstanding acceptances of Rs.4,329 crore as on March 31, 2019 which provide comfort to an extent. Further, the average utilization of fund-based limits remained comfortable at 16.60% during the twelve months ended June 2019 while the same for non-fund based limits remained moderate at around 88.26% as the company mainly uses trade credit limits. Moreover, WIL's unsecured line of credit also aids liquidity of AWL.

Key Rating Weaknesses
Project risk
AWL has completed capital expenditure to increase its refining capacity from 9,365 TPD to 14,015 TPD, which represents 50% increase from its existing capacity through brownfield expansion and acquisition of new refineries and setting up a besan plant, packaging line and glycerine unit. However, the completion of capex at green-field facility in Hazira with refining capacity of 2,500 TPD is delayed. Revised total project cost is estimated at around Rs.1,450 crore as against original project cost of Rs.1,711 crore mainly on account of savings in Interest during construction (IDC) cost due to delayed drawdown of term debt. Subsequently, AWL has surrendered the undrawn portion of term debt of Rs.171 crore to lenders. Apart from this, AWL has incurred capital expenditure of around Rs.200 crore mainly in rice and edible oils.
Further, the company has a long term goal to leverage its large distribution network to penetrate the markets for Oleo chemical and the other agro-based products to further diversify its revenue stream and improve profitability and hence it has

planned a capex of Rs.1,697 crore to be executed over the next two years and proposed to be funded through term debt of Rs.1,273 crore and rest through internal accruals. Expansion in oleo-chemical segment is expected to provide synergic benefit to AWL along with increasing product diversification while the plant up-gradation at Hazira and Mundra aim to enhance the safety standards in line with international best practices. However, AWL is exposed to inherent post implementation risk mainly in other agro products segment considering competition from large players and 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 is 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 continued to remain higher at 3.96 times as on March 31, 2019 on account of term debt drawl for execution of capex and increase in working capital requirements following increase in import duty and marginal increase in collection period. Total net debt increased from Rs.3,328 crore as on March 31, 2018 to Rs.5,048 crore as on March 31, 2019 on account of increase in use of acceptances and disbursement of term debt for capex. Increase in usage of acceptances and increase in benchmark LIBOR had also resulted in increase in interest cost during FY19 and hence moderated interest coverage. Leverage and debt coverage indicators are expected to be moderated further in the medium term due to planned and ongoing capex aggregating around Rs.2000 crore to be executed in FY20-FY21.

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. Further, during last two years, the government has significantly increased the import duties as well as duty differential from 5% to 10% on edible oil in order to encourage the domestic oilseed producers and refiners; however, the benefit of the same has not been fully passed on to the domestic players due to fall in the edible oil prices in the international market and increase in working capital intensity of players post hike in duty. Furthermore, disparity in duty differential of refined palm among Malaysia and Indonesia had also increased imports of cheaper refined palm oil in India during FY19 and Q1FY20. However, government has brought it at par in September 2019 which is expected to protect domestic players. 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
Despite marginal improvement in the profitability of the company during FY19 due to discontinuation of sugar trading business and established brand of the company, they continue to remain moderate on account of high competitive intensity and limited value addition in the industry. The edible oil industry is highly competitive with presence of both large national players and regional players. 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.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[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 AEL and Singapore based Wilmar Group. With effect from March 30, 2017, AEL transferred its holding in AWL to Adani Commodities LLP which in turn is a 100% subsidiary of AEL. As on March 31, 2019, the company had an installed capacity of 14,015 TPD of crude oil refining and 8,025 TPD of crushing with a combination of port based and inland manufacturing facilities at 15 locations across India.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	26,396	28,917
PBILDT	1,016	1,208
PAT	367	365
Overall gearing (times)	2.02	2.52
Interest coverage (times)	3.41	2.62

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 Q1FY20, AWL reported TOI of Rs.7,497 crore and profit before tax (PBT) of Rs.196 crore.

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	-	-	March 2025	2516.00	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	1150.00	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	4887.50	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	2500.00	CARE A; Stable / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2516.00	CARE A; Stable	-	1)CARE A; Stable (10-Sep-18)	1)CARE A; Stable (01-Sep-17)	1)CARE A (27-Sep-16)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	1150.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)	1)CARE A / CARE A1 (27-Sep-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4887.50	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)	1)CARE A / CARE A1 (27-Sep-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	2500.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (10-Sep-18)	1)CARE A; Stable / CARE A1 (01-Sep-17)	1)CARE A / CARE A1 (27-Sep-16)

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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