E.I.D. Parry (India) Limited

February 14, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Commercial Paper Issue	950.00 (Rupees Nine Hundred and Fifty crore only)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper(CP) issue of E.I.D. Parry (India) Limited(EID) continues to factor in strong parentage of EID, benefits derived from being part of Murugappa group, established track record of EID in sugar industry with integrated nature of operations and geographically diversified presence of manufacturing units to an extent. The rating also factors in the significant amount of investments by EID in its subsidiary-Coromandel International Limited (CIL) having strong financial risk profile.

The rating however is constrained by moderate financial performance of the company , its exposure to subsidiary companies mainly Parry Sugar Refinery India Private Limited whose performance remains moderate, inherent cyclicality of sugar business, susceptibility to agro climatic conditions and high level of regulations in the industry.

Rating Sensitivities

Positive Factors

- Increase in profitability on sustained basis
- Decline in debt levels resulting in improved capital structure

Negative Factors

- prolonged down trend in the sugar industry impacting revenue and profitability
- Significant deterioration in capital structure and operating margin on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and benefits derived from being part of Murugappa group

EID is a part of the diversified Murugappa group, one of the India's leading conglomerates with focus towards various businesses including engineering, abrasives, finance, general insurance, cycles, sugar, farm inputs, fertilizers, plantations, bio-products and nutraceuticals.

Headquartered in Chennai, the few of the major Companies of the Group include Tube Investments of India Ltd, Carborundum Universal Ltd, Cholamandalam Investment & Finance Company Limited (rated CARE AA+; Stable),, Cholamandalam MS General Insurance Company Ltd, Coromandel International Ltd, Coromandel Engineering Company Ltd, E.I.D. Parry (India) Ltd, Parry Agro Industries Ltd., and Wendt (India) Ltd. EID being a part of Murugappa group, enjoys financial flexibility and benefits with respect to raising funds and has a brand attached within the farming community.

Established and long track record in sugar industry with integrated nature of operations and geographically diversified presence of manufacturing units

EID is an integrated player engaged in the manufacture of sugar, industrial alcohol, generation of power through sugar co-gen and nutraceuticals. As on December 2019, EID has aggregate sugar manufacturing capacity of 45,800 tonne per day (TCD), four distilleries with a combined capacity of 234 kilo litre per day (KLPD) and 160 megawatt (MW) of co-generation capacity with eight power plants. The units are spread across three southern states, viz., five units in Tamil Nadu, three units in Karnataka and one unit in Andhra Pradesh. This apart, EID is in the process of expanding its ethanol capacity in Karnataka and Andhra Pradesh. Integrated nature of operations with revenue from power division, distillery division along with nutraceuticals aids the company to an extent to mitigate volatility associated with sugar prices.

During FY19 sugar division contributed 75% (PY: 77%) of total income followed by distillery division with 17% (PY: 16%), co-gen with 4% and nutraceuticals with 4%.

Investments in subsidiary-Coromandel International Limited (CIL) having strong financial profile

EID derives financial flexibility from being the holding company for CIL (listed). CIL, one of the flagship companies of the Murugappa group is an established player in the phosphatic-fertiliser industry in India having a wide product portfolio including pesticides, speciality nutrients and gypsum. During FY19, CIL registered PAT of Rs.714 crore (PY: 685 crore) and total operating income (TOI) of Rs.13,240 crore (PY: Rs.11,168 crore). EID's 60.56% stake in CIL is valued at around Rs.10,550 crores as on Jan 21, 2020. CIL has a healthy track record of dividend payout aiding the overall revenues and profitability of

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

EID. During FY19, EID has reported dividend income of Rs.115 crore from CIL. In April 2018, EID Parry sold its in-house bio-pesticides business (on slump sale basis) along with its entire stake in fully owned subsidiary – Parry America Inc, USA to CIL for a total sales consideration of Rs.338 crore, which was received in April 2018.

Key Rating Weaknesses

Moderate financial performance of EID on account of volatile nature of revenue and profits in sugar division

During FY19, EID registered PAT of Rs.163 cr and GCA of Rs.227 cr on TOI of Rs.2,042 cr as against PAT of Rs.101 cr and GCA of Rs.181 cr on TOI of Rs.2,119 cr in FY18. In FY19, income from sale of sugar declined mainly due to lower sugar sales realization. The average sugar realization was Rs.31.03/kg in FY19 as against Rs.36.82/kg in FY18. The average sales realization was high in FY18. The prices were lower in Q1FY19 and subsequently started improving. During FY19, with moderation in average sugar sales realization, PBILDT margin moderated to 7.66% in FY19 from 16.84% in FY18. The cane cost remained stable in FY19. Improvement in PAT an GCA in FY19 is mainly on account of profit on sale of its bio-pesticides division and stake sale in one of its subsidiary.

With favourable climatic conditions cane crushing increased to 37.19 LMT in FY19 from 36.72 LMT in FY18. Cane crushing improved in Tamil Nadu and Andhra Pradesh and remained at similar levels in Karnataka in FY19 on y-o-y basis.

During 9MFY20, the company registered net loss of Rs.67 cr (PY: PAT Rs.34 cr) and cash loss of Rs.49 cr on total operating income of Rs.1,380 cr (PY Rs.1,399 cr). Performance in 9MFY20 was moderate mainly on account of seasonal nature of industry, resulting in under absorption of fixed overheads as majority of the cane crushing takes place in Q4. Revenue from Distillery division has remained stable in FY19. The average realization declined by 6% in FY19 however the total sales volume increased by 9% in FY19 on y-o-y basis. In resepct of power division, EID has long term PPA's with Karnataka and AP state discoms with tenor ranging from 5 years to 20 years and power from TN co-gen units is sold to energy exchange.

Susceptibility of the revenues and profitability to the demand-supply dynamics with cyclical and regulated nature of sugar industry

Sugar industry is highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. While the input prices are driven by the government, sugar prices are volatile and based on open market prices. However, with introduction of monthly release mechanism in June 2018 and MSP, volatility in sugar prices have declined since then. Regulatory mechanisms and dependence on monsoons for cane availability have also rendered the sugar industry cyclical.

Exposure to subsidiary companies

The company has total equity investments in subsidiaries to the extent of Rs.801 crore (PY:Rs.731 cr) as on March 31, 2019. Of these majority of the investments are in CIL (Rs.120 cr), Parry Sugar Refinery India Private Limited (PSRIPL) (Rs.569 cr) and USN (Rs.78 cr).

PSRIPL has a sugar refinery with capacity of 2500 TPD, and a 35 mega-watt (MW) captive power plant in Andhra Pradesh. PSRIPL imports raw sugar, refines the same and exports the refined sugar. Parry Sugar Refinery India Private Limited (PSRIPL) registered net loss of Rs.89 crore (PY: net loss Rs.75 crore) on TOI of Rs.1,447 crore (PY: 2541 crore) in FY19. PSRIPL's revenue and profitability was impacted in FY19 by weak sugar prices and inventory losses following decline in global raw sugar prices.

USN is engaged in the business of discovery, development, and production of nature-sourced ingredients and formulations for nutritional supplements. USN registered PAT of USD.0.9 million (PY USD 0.8 million) on total income of USD 20.7 million (PY: USD 23.5 million) in FY19.

EID has also extended corporate guarantee to the NCD issue and term debt of PSRIPL (O/s Rs.258 cr as on March 31, 2019 and Rs. 200 cr as on Sep 30, 2019) and Standby Letter of Credit limit of Rs.28 cr for USN and Rs.10 cr for Alimtec S.A as on March 31, 2019. In FY19, EID invested additional Rs 70 cr in PSRIPL.

Industry outlook

Sugar production for the sugar year October 2018-September 2019 grew by around 2% with a high closing stock of around 14.6 mn MT at the end of SS 2018-19. The closing stock is higher than the normative requirement which has kept sugar prices under pressure. The domestic average sugar prices moderated during SS 18-19 due to excess sugar inventories in the country. However the government hiked the MSP of sugar to Rs.31 per kg in Q4FY19 to support the prices. In addition to this, lower estimates of sugar production for SS 19-20 also supported the prices.

Going forward sugar production is estimated to be lower during the sugar season 2019-20. Government has also increased procurement prices for ethanol to divert sugarcane towards production of ethanol which will further lower sugar production. Overall, measures taken by the government including MSP for sugar, ethanol-blending and export incentive bodes well for the industry.

Liquidity: Adequate

The company makes payment to farmers within the stipulated time and sells to sugar institutional customers on 30-35 days credit and to small customers on cash basis. The average inventory holding was 206 days in FY19. The working capital cycle is low for the company as it has high credit period for the cane payment bills which are discounted by the farmers with banks. This has resulted in low working capital limit utilization. The average working capital utilization has been low at 25% for the elven month period ended December 2019. The total free cash & bank balance and liquid balance as on September 30, 2019 was Rs.5 crore. The total debt repayment scheduled for FY20 is Rs.105 cr as against GCA of Rs.227 cr in FY19.

Analytical approach: Standalone, factoring in the support extended to two subsidiaries PSRIPL and USN as they are in same line of business and EID has extended funding support to these entities.

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-Manufacturing Companies]
[Financial ratios (Non-Financial Sector)]
[Rating Methodology - Sugar Sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company

E.I.D. Parry (India) Limited (EID) is part Chennai based Murugappa group. The group has diverse business activities that include abrasives, automotive components, cycles, sugar, farm inputs, fertilizers, plantations, construction and bio-products. Mr M.M.Murugappan is the Executive Chairman of the group. EID represents the group's sugar manufacturing business. The promoters held 45% stake in the company as on December 31, 2019. EID has nine sugar units spread across Tamil Nadu, Karnataka and Andhra Pradesh with a total installed capacity of 45,800 Tons of Cane per Day (TCD), co-generation capacity of 160 megawatt (MW) and distillery capacity of 234 kilo litre per day as on December 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,119	2,042
PBILDT	357	156
PAT	101	163
Overall gearing (times)	0.63	0.49
Interest coverage (times)	3.16	1.38

A: Audited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	-	7 days to 364 days	950.00	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.	Commercial Paper	ST	950.00	CARE A1+	-	1)CARE A1+ (22-Jan-19)	-	-

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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