# E.I.D. Parry (India) Limited

November 12, 2020

**Ratings**

| Instruments | Amount (Rs. crore) | Rating1 | Rating Action |
|---|---|---|---|
| Commercial Paper Issue | 650.00 (Reduced from 950.00) | **CARE A1+ (A One Plus)** | Reaffirmed |
| **Total Short-Term Instruments** | **650.00 (Rs. Six Hundred Fifty Crore Only)** | | |

*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 benefits derived from being part of Murugappa group, established track record of EID in sugar industry with integrated nature of operations, geographically diversified presence of manufacturing units to an extent and significant value of investments held. The rating also takes note of significant reduction in debt levels during H1FY21 (refers to period from April 01 to September 30) supported by liquidation of minor stake & receipt of significant dividends from its investments. The rating is however constrained by the susceptibility of the revenues and profitability to the demand-supply dynamics, cyclical and regulated nature of the industry and EID's exposure to Parry Sugar Refinery India Private Limited (a subsidiary) whose performance remains moderate.*

**Key Rating Sensitivities**

**Negative Factors**

- Prolonged down trend in the sugar industry impacting revenue and profitability
- Significant deterioration in capital structure with net term debt/equity > 0.5x on a sustained basis

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**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, 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 September 2020, EID has aggregate sugar manufacturing capacity of 43,800 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 FY20 sugar division contributed 73% (PY: 75%) of total income followed by distillery division with 19% (PY: 17%), co-gen with 4% and nutraceuticals with 3%.

***Investments in subsidiary-Coromandel International Limited (CIL) having strong financial profile; Stake sale and dividend inflow in H1FY21 helps reduce borrowings***

EID also 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, specialty nutrients and gypsum. During FY20, CIL registered PAT of Rs.1,059 crore (PY: 714 crore) and total operating income (TOI) of Rs.13,155 crore (PY: Rs.13,240 crore). EID's 58.42% stake in CIL is valued at around Rs.12,148 crore as on October 27, 2020. CIL has a healthy track record of dividend pay-out. Since FY16, EID has received cumulative dividend income of around Rs.640 crores from CIL aiding the liquidity profile of the company. For the recent years, EID received dividend income of Rs.62 crore in FY20 and Rs. 206 crore in Q2FY21 from CIL. On June 02, 2020, EID sold ~2% of stake held in Coromandel International Limited (CIL) in the open market for a total sale consideration of Rs.368 cr. Proceeds of stake sale and dividend

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

receipts were primarily used to reduce the debt during six period ended September 2020. The management had prioritized reduction of term debt which has declined from Rs.543 crore as on March 31, 2020 to Rs.243 crore as on September 30, 2020.

***Improved financial performance of EID in FY20 driven by higher sugar and alcohol realizations; Higher sugar volumes seen during H1 FY21 driven by higher exports***

During FY20, the financial performance of the company improved on Y-o-Y basis with PBILDT margin of 11.17% in FY20 as against 7.66% in FY19 largely on account of improved sales realization from sugar and distillery. Sugar sales realization improved to Rs.33.19/kg in FY20 from Rs.31.02/kg in FY19. Cane cost marginally dropped from Rs. 2,986/MT in FY19 to Rs. 2,958/MT in FY20. EID has been improving its sugar sales mix towards the remunerative retail segment where it earns better realization. Retail sales accounted for 8% of sales volume in FY19 and increased to 14% in FY20 and the company plans to increase share of retail sales further going forward. EID's overall gearing stood at 0.64 times as on March 31, 2020. Adjusting for investments in subsidiaries/joint-ventures other than Coromandel International Limited and debt guaranteed by EID, overall gearing stood at 1.41 times as on March 31, 2020.

During H1FY21, the company reported 36% increase in revenue Y-o-Y driven by higher sales from core sugar business. Sugar sales volume improved largely driven by higher exports. Average sales realization for sugar also improved. Aided by improvement in revenues and cost control measures adopted, the company was able to report a PBILDT of Rs.26 crore during H1FY21 as against PBILDT loss of Rs.41 crore in H1FY20.

***Moderate capital expenditure plans going forward***

For FY21, EID plans to incur capex of around Rs.190 cr which includes capex for Rs.86 cr for setting up an ethanol capacity at one of its units in Bagalkot (Karnataka) unit under the Ethanol Blending Program Loan scheme, Rs.4 cr for its Sankili (AP) unit for adding machinery, around Rs.50 cr for expanding its capacity at one of its unit in Karnataka (Haliyal) from 7500 TCD to 12000 TCD by transferring assets from its other unit (Pudukottai) which is non-operational and remaining Rs.50 cr as general capex. The modernization/upgrading activity undertaken by the company in the distillery division is expected to support margins and lower dependence on Sugar sales. Any major debt funded capex and extension of support to ailing subsidiaries would be credit monitorable.

**Key Rating Weaknesses**

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

Sugar industry is highly regulated, cyclical, and seasonal which significantly impacts the operating performance of sugar companies. Sugar production in India for SS20 (Oct 2019 to Sep 2020) is expected to be lower as key sugar growing areas like Maharashtra and Karnataka witnessed erratic rainfall as well drought in some areas. India continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government. India's sugar inventory at the end of SS20 is expected to be at ~4-5 months of consumption, well in excess of the normal 2-3 months of reserve stocks. Consumption for SS20 which was initially expected to be marginally better was impacted by the Covid-19 induced lockdown which impacted domestic sugar sales during the season. Sugar production for the ensuing SS21 is expected to rebound from SS20 levels, largely driven by recovery in key growing areas like Maharashtra and Karnataka where there are above-average reservoir levels. These two states along with Uttar Pradesh contribute to nearly 80% of sugar production. Global prices after gradually reducing for a year until September 2019, started rising helped by drop in cane production in Thailand and India and also due to the fact that Brazilian mills were continuing their focus on ethanol manufacturing. However, with the onset of the Covid-19 pandemic in Mar-2020, the global prices started retreating and plunged back to September 2019 levels on fear of drop in consumption. The drop was further fueled by the crash in global oil prices, which rendered ethanol manufacturing non-remunerative, forcing Brazilian mills to produce more sugar. Domestic prices, however remained insulated to an extent supported by the MSP and release mechanism enforced by the Government.

**Exposure to subsidiary companies**

The company has total equity investments in subsidiaries to the extent of Rs.816 crore (PY:Rs.801 cr) as on March 31, 2020. Of these, majority of the investments are in CIL (Rs.116 cr), Parry Sugar Refinery India Private Limited (PSRIPL) (Rs.584 cr) and USN (Rs.82 cr).

PSRIPL has a sugar refinery with capacity of 2800 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. PSRIPL registered net loss of Rs.19 crore (PY: net loss Rs.89 crore) on TOI of Rs.2,062 crore (PY: 1,447 crore) in FY20. The profitability in sugar refining business is dependent on the spread between the raw and white sugar and operational efficiencies as indicated by capacity utilization levels and conversion cost. The company has taken steps towards profitability improvement such as process optimization and locking up the margins on the refined sugar sales in the international commodity exchanges. USN is engaged in the business of discovery, development, and production of nature-sourced ingredients and formulations for nutritional supplements. USN registered Net loss of USD.0.6 million (PY: PAT of USD 0.9 million) on total income of USD 22.2 million (PY: USD 20.8 million) in FY20.

EID has also extended corporate guarantee to the NCD issue and term debt of PSRIPL (O/s Rs.209 cr as on March 31, 2020) and Standby Letter of Credit limit of Rs.71 cr for USN and Rs.9 cr for Alimtec S.A as on March 31, 2020. In FY20, EID invested additional Rs 15 cr in PSRIPL and Rs.4 crore in USN.

***Prospects***

Financial performance of EID witnessed improvement in FY20 driven by better realizations in the Sugar as well as Distillery business. Further, integrated nature of operations and regular dividend income from CIL has aided the overall profitability of the company. Stake sale in CIL and dividend inflow has helped the company reduce its debt burden significantly in H1FY21 and the subsequent reduction in interest burden is expected to support accruals going forward. Going forward, cyclicality associated with the industry, challenges with respect to cane availability in the regions where EID's plants are located and trends in sugar realizations are expected to have a major bearing on the operational and financial performance of the company.

**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 FY20. The overall 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 22% (45% including CP) for the 12-month period ended September 2020. Total scheduled debt repayment in FY21 was Rs.143 cr against which the company has prepaid Rs. 124 cr as on September 30, 2020.

**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-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 September 30, 2020. EID has nine sugar units spread across Tamil Nadu, Karnataka and Andhra Pradesh with a total installed capacity of 43,800 Tons of Cane per Day (TCD), co-generation capacity of 160 megawatt (MW) and distillery capacity of 234 kilo litre per day as on September 30, 2020.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---:|---:|
| Total operating income | 2,042 | 2,013 |
| PBILDT | 156 | 219 |
| PAT | 163 | 2 |
| Overall gearing (times) | 0.49 | 0.64 |
| Interest coverage (times) | 1.38 | 1.61 |

*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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Commercial Paper (Standalone) | - | - | 7 days to 1 year | 650.00 | 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 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. | Commercial Paper (Standalone) | ST | 650.00 | CARE A1+ | - | 1)CARE A1+ (14-Feb-20) | 1)CARE A1+ (22-Jan-19) | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Nil

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Commercial Paper-Commercial Paper (Standalone) | 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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**About CARE Ratings:**
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