

Emami Agrotech Limited

January 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	588.34 (enhanced from 444.70)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	5,540.30 (enhanced from 4,565.50)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	6,128.64 (Rupees Six Thousand One Hundred Twenty Eight crore and Sixty Four lakh Only)		

Details of facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Emami Agrotech Ltd (EAL) continues to draw comfort from the rich industry experience of promoters of EAL, corporate guarantee extended by the group investment companies and demonstrated financial support from promoters, established distribution network and brand image of the products, consistent growth in the scale of operations, satisfactory working capital cycle, stable outlook of the edible oil industry with huge demand-supply gap and satisfactory liquidity position of the company. The ratings, however, remain constrained by significant dependence on the import of raw material exposing EAL to foreign exchange fluctuation risk, low profit margin due to low value addition, raw material price volatility, intense competition, regulatory risk associated with the edible oil industry, decline in profitability in FY18 along with moderate capital structure and debt coverage indicators and project stabilisation risk. CARE notes the presence of hedging mechanism for covering foreign currency fluctuation and commodity price volatility.

The ability of the company to achieve sustained growth in scale of operations and profitability, effective management of foreign currency fluctuation risk, continue support from the promoters along with successful implementation and stabilisation of its on-going projects are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths
Strong group with significant fund infusion by the promoters

EAL belonging to the Kolkata based Emami group, is one of the leading manufacturers of herbal and ayurvedic products in personal, cosmetic and health care segments with market leadership in few of its products. The group has demonstrated continuous support towards fund requirement of EAL. In FY18, the promoters infused Rs.68.5 crore as unsecured loans. The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka are professionals with business experience of about four decades.

Corporate guarantee has been extended by group investment companies - Diwakar Viniyog Pvt Ltd (DVPL), Suntrack Commerce Private Limited (SCPL), Bhanu Vyapaar Private Limited (BVPL), and Suraj Viniyog Pvt. Ltd (SVPL) - for the bank facilities of Rs.5,657 crore (out of Rs.6,129 crore rated by CARE). The companies together hold 47.4% of shares of Emami Ltd (out of 72.7% promoter holding), having market value of Rs.8,900 crore as on December 21, 2018 (MV of Emami Ltd: Rs.18,800 crore).

Established distribution network, branding and marketing arrangement

EAL has major presence in West Bengal, Uttar Pradesh, Bihar, Jharkhand, Odisha, Manipur and Assam and also penetrated in Maharashtra, Rajasthan, Punjab and Delhi for its edible oils business through a strong network of 1,900 distributors, 35 depots and through direct reach to around 2,50,000 retailers. The sale of branded oil increased to 44% of net sales in FY18 compared to 35% in FY17 signifying improved brand image of EAL's products.

Consistent growth in the scale of operations albeit decline in profitability in FY18

The financial performance of the company is characterized by improvement in scale of operation due to some degree of moderation of competition within the industry and increased focus on branded and value-added products. Net sales of the company grew considerably by 31.5% y-o-y in FY18 driven by considerable increase in average sales realization and growth in sales volume.

PBILDT margin witnessed a decline from 4.56% in FY17 to 3.58% in FY18 on account of significant increase in power and employee cost. PAT margin also witnessed a decline from 1.30% in FY17 to 1.00% in FY18 on account of increase in interest cost. GCA also witnessed a decline to Rs.149.7 crore in FY18 (Rs.168.6 crore in FY17) vis-à-vis a debt repayment

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

obligation of Rs.60.8 crore.

Capacity utilization remained stable at around 85% in FY18 despite increase in installed capacity in view of higher refining and continuation of the duty differential, making refining viable.

Government incentives

The company is entitled to various incentives/subsidies in relation to its plants at Haldia and Krishnapatanam under the West Bengal Incentive scheme 2004 and Industrial Investment policy of 2005-10 of the Andhra Pradesh Government respectively over a specified period. Going forward, the company shall be entitled to fresh subsidy (appx.Rs.160 crore over 7 years) on commissioning of the projects currently under implementation at Haldia.

Satisfactory working capital cycle

EAL is required to hold inventory (45-50 days), given the seasonality in edible oilseeds production and lack/non-availability of soybean/palm oilseeds in the domestic market. As the edible oil business is carried on cash and carry basis, the average collection period is low at 11 days in FY18. The average working capital cycle EAL is around 38-44 days.

Satisfactory liquidity position of the company

The company has a satisfactory liquidity position with a GCA of Rs.150 crore in FY18. EAL has significant cash and bank balance (including margin money) amounting to Rs.2,840 crore as on March 31, 2018. The cash and bank balance (excluding margin money) stood at Rs.313 crore as on March 31, 2018. The current ratio and quick ratio of the company stood at 1.01x and 0.71x as on March 31, 2018. The company's cash accruals in future are expected to meet its debt repayment obligations and if required, the promoters will infuse fresh funds or the company will take new term loan against pledge of shares of Emami Limited (EL; rated CARE AA+; Stable/ CARE A1+).

Key Rating Weaknesses

Significant dependence on import of raw material exposes EAL to foreign exchange fluctuation risk

Raw material cost accounted for 90%-95% of total cost of sales of EAL during the last three years. Major raw materials required for EAL are crude palm oil (CPO), crude soya oil (CSO) and crude sunflower oil. EAL is significantly dependent on imports for procurement of CPO (Indonesia and Malaysia), CSO (Latin America, Brazil and Argentina) and sunflower oil (Ukraine) in view of lack of availability in domestic market. As such, the company is also exposed to the risk of adverse movement in forex rates. However, EAL follows reasonable hedging policies for mitigation of forex risk.

Regulatory risk associated with edible oil industry

The price of palm oil imported by India from the largest exporters of the commodity in the world, i.e., Indonesia and Malaysia, are affected by the frequent duty structure changes done by the respective national government to protect their domestic industries. EAL is exposed to adverse changes in regulatory and import/export duty structures based on actions of various government institutions. The duty on CPO had been increased to 44% from 30% and on refined palm oil (RPO) to 54% from 40%; keeping the duty difference stable at 10%. Recently, the government has reduced the import duty on CPO to 40% and RPO to 45% (if imported from Malaysia) and 50% (if imported from Association of South East Asian Nations including Indonesia). Also, the duty on CSO had been increased to 35% from 30% and on refined soya oil to 45% from 35%; thereby increasing the duty differential from 5% to 10%. Also, a social welfare surcharge of 10% over and above the duty rates has been imposed. Accordingly, EAL is exposed to regulatory risks associated with import/ export of edible oil.

Low profit margin in the industry due to low value addition, raw material price volatility and intense competition

The operating margins of edible oil refiners are generally low owing to low value addition involved in the business and raw material price volatility. The industry is also highly fragmented with presence of large number of small-sized players and few large players in the branded segment. The intense competition in the industry also exerts pressure on the already stressed operating margin.

Moderate capital structure and debt coverage indicators

The increase in term loan for the new projects along with the issue of new debentures amounting to Rs.150 crore led to increase in the overall debt level. The company majorly imports its raw material through foreign LC and buyer's credit facility. However, after the discontinuation of buyer's credit, the company is importing through foreign LC. The overall gearing ratio (considering debt net of margin money) remained moderate at 2.28x as on March 31, 2018. Net debt/GCA also remained on the higher side due to high reliance on NFB limits for procurement of raw material.

Project stabilisation risk

The company has expanded its existing facility at Haldia by way of setting up 1000 TPD pretreatment & 750 TPD fractionation plant at Haldia at capital cost of Rs.125 crore to produce RPO and also setting up a captive co-generation power plant (7.5 MW) at an estimated cost of Rs.63 crore. The facility has started its commercial production from October 2017. The co-generation power plant has also commenced operations from March 2018.

The company is setting up 400 TPD preparatory Section, 300 TPD Solvent Extraction Unit and 25 TPD Edible oil Refinery in Rajasthan to produce Refined Mustard Oil at an estimated cost of Rs.90 crore, to be funded through promoters' contribution /internal accruals of Rs.27 crore and term loan of Rs.63 crore. Currently, the project is under trial run.

Analytical approach: Standalone with linkages with other group companies

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[Criteria for Short Term Instruments](#)
[Factoring linkage in Ratings](#)
[CARE's Policy on Default Recognition](#)
[Financial ratios – Non-Financial Sector](#)
[CARE's methodology for manufacturing companies](#)

About the Company

EAL, belonging to the Emami Group of Kolkata, is engaged in refining of various oils (palm, soya, sunflower, vanaspati). Over the years, EAL has emerged as one of the leading players in the Indian edible oil industry, with dominant position in the Eastern region.

The oil processed/refined by EAL is sold under the brand name of 'Himani Best Choice' (in the popular segment) and 'Emami Healthy & Tasty' (in the premium segment). EAL entered the Vanaspati oil market with acquisition of the brand 'Rasoi' in FY15. The company is also expanding the product portfolio to include more value added products used in bakery industry, sold under the brand name 'Bakemagic'. The sale of branded oil contributed to 44% of net sales in FY18 (35% of net sales in FY17).

EAL has a wide distribution network of 35 depots having a pan-India presence through its 1900 distributors with direct retail coverage of around 2,50,000. It has aggregate refining capacity of 3,500 TPD (12,25,000 TPA) for edible oil (including 600 TPD for soya, 400 TPD for sunflower, 400 TPD for Vanaspati and 300 TPD for rice Bran oils) at Haldia (WB) and Krishnapatnam. This apart, the company has also set up a 130 TPD of bakery shortening plant at Krishnapatnam, as a forward integration initiative for producing value added derivatives. EAL also has a 300 TPD multi-feed bio-diesel plant and is also involved in trading of mustard, sunflower and vegetable oils. Furthermore, EAL has set up a 1000 TPD refining plant with 750 TPD fractionation facility at Haldia, which has started commercial production from October 2017. The project also included setting up of 7.5 MW co-generation power plant, which commenced operations from March 2018.

EAL is also setting up a 400 TPD preparatory Section, 300 TPD Solvent Extraction Unit and 25 TPD Mustard edible oil refinery at Jaipur which is currently under trial run.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	6938.69	9034.31
PBILDT	316.38	323.64
PAT	90.39	90.12
Overall gearing (times)	1.96	2.28
Interest coverage (times)	2.27	1.74

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

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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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	-	-	January 2027	371.46	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	January 2027	216.88	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	5460.30	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	80.00	CARE A2
Non-fund-based - ST-Forward Contract	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	371.46	CARE A-; Stable	-	1)CARE A-; Stable (17-Aug-17)	1)CARE BBB+; Stable (12-Jan-17)	1)CARE BBB (20-Nov-15) 2)CARE BBB (16-Oct-15)
2.	Fund-based - LT-Term Loan	LT	216.88	CARE A-; Stable	-	1)CARE A-; Stable (25-Jan-18) 2)CARE A-; Stable (17-Aug-17)	1)CARE BBB+; Stable (12-Jan-17)	1)CARE BBB (20-Nov-15) 2)CARE BBB (16-Oct-15)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (20-Nov-15) 2)CARE BBB (16-Oct-15)
4.	Non-fund-based - ST-Letter of credit	ST	5460.30	CARE A2	-	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)	1)CARE A3+ (12-Jan-17)	1)CARE A3+ (20-Nov-15) 2)CARE A3+ (16-Oct-15)
5.	Non-fund-based - ST-Bank Guarantees	ST	80.00	CARE A2	-	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)	1)CARE A3+ (12-Jan-17)	1)CARE A3+ (20-Nov-15) 2)CARE A3+ (16-Oct-15)
6.	Non-fund-based - ST-Forward Contract	ST	-	-	-	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)	1)CARE A3+ (12-Jan-17)	1)CARE A3+ (20-Nov-15) 2)CARE A3+ (16-Oct-15)

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