

Emami Agrotech Limited

January 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1,401.26 (enhanced from 588.34)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	5,540.30	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	6,941.56 (Rupees Six Thousand Nine Hundred Forty One crores and Fifty Six 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 and demonstrated financial support in the form of unsecured loans from promoter, established distribution network and well-known brand name, consistent growth in the scale of operations, satisfactory working capital cycle, stable outlook of the edible oil industry with and adequate 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 risk intense competition and regulatory risk associated with the edible oil industry, along with moderate capital structure and debt coverage indicators and project implementation risk. CARE notes the presence of hedging mechanism for covering foreign currency fluctuation and commodity price volatility.

Key Rating Sensitivities

Positive Factor:

1. Growth in scale of operations as marked by total operating income of above Rs. 30,000 crores on a sustained basis
2. Increase in profitability margins as marked by PBILDT margins of above 5% on a sustained basis

Negative Factor:

1. Any delay in procurement of envisaged funds from promoters for the project
2. Decline in free cash & liquid investment below Rs.280cr on a sustained basis.
3. Deterioration in net overall gearing (> 2.00x) on a sustained basis.

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 FY19, the promoters infused Rs. 281.00 crores as unsecured loans. The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka have business experience of about four decades.

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 1,600 distributors, 31 depots and through direct reach to around 3,50,000 retailers. The sale of branded oil increased to 50% of net sales in FY19 compared to 44% in FY18 signifying improved brand image of EAL's products.

Consistent growth in the scale of operations albeit decline in profitability in FY19, followed by improvement witnessed in H1FY20

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 38% y-o-y in FY19 driven by considerable increase in average sales realization and growth in sales volume.

PBILDT margin declined slightly from 3.58% in FY18 to 3.13% in FY19 on account of increase in crude soya and palm oil prices in addition to increase of basic custom duty on its imports. Further, EAL achieved net sales of about Rs. 6319 crores in

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

H1FY20 & a PBILDT of Rs 218.00 crs thereby earning a slightly high margin of 3.45% vis-à-vis 3.13% in FY19 due to various cost saving measures being implemented by the company.

Satisfactory working capital cycle

EAL is required to hold inventory (40-50 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 17 days in FY19. The average working capital cycle EAL is around 29-38 days.

Moderate capital structure and debt coverage indicators

The company majorly imports its raw material through foreign Letter of Credit (LC's). The overall gearing ratio (considering debt net of margin money) improved to 1.70x as on March 31, 2019 vis-à-vis 2.28x as on March 31, 2018. Interest coverage ratio however deteriorated in FY19 on account of increase in interest cost as a result of increased borrowings of the company and remained moderate at 1.37x in FY19 (1.74x in FY18). Net debt/GCA, although high, remained stable at 12.05x as on Mar 31, 2019 as against 12.28x as on Mar 31, 2018.

Key Rating Weaknesses

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

Raw material cost accounted for a major chunk 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. In January 2019, 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). On September 04, 2019 import duty on RPO on import from Malaysia increase to 50%; thereby increasing the duty differential from 5% to 10% for Malaysia also. At present, the import duty on crude palm oil is 40% and on refined palm oil is 50%. 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.

Project Implementation risk

The Company is in the process of expanding its existing facility at Haldia by way of setting up 2,000 TPD refining plant at Haldia at capital cost of Rs. 300 crore to produce refined edible oil. The entire expansion project in Haldia would be funded by a mix of promoter's contribution of Rs. 90 crores and a fresh term loan of Rs. 210 crores. The facility is expected to begin commercial production from January 2020. Post which, the capacity of Haldia plant would increase from 3,600 TPD to 5,600 TPD at the end of FY20. Cost incurred till September 30, 2019 on the project is Rs.180.31 crores (Rs 71.74 cr. funded by way of promoter contribution and Rs.108.57 by term loan from Punjab & Sind Bank).

EAL is also setting up a Greenfield project of 3,000 TPD edible oil refinery in Kandala, Gujarat at an estimated cost of Rs. 545 crores, to be funded through promoters' contribution of Rs. 160 crores and a term loan of Rs. 385 crores. Currently, the project is under progress. Expected time for completion of the project would be Q2, 2021. Till September 30, 2019 Company has incurred Rs.103.87 cr. The successful execution and achievement of desired level of capacity utilization shall remain be key rating monitorable.

Liquidity: Adequate

EAL has cash and bank balance (including margin money) amounting to Rs. 2,871 crores as on March 31, 2019. The cash and bank balance (excluding margin money) stood at Rs.383.93 crores as on March 31, 2019. The current ratio and quick ratio of the company stood at 1.03x and 0.78x as on March 31, 2019. In FY20, EAL has repayment obligation of Rs. 297.00 crs and it has paid around Rs 198 crs till September'19. The company's cash accruals & liquid balances are expected to be sufficient to

meet its debt repayment obligations.

Analytical approach: Standalone with linkages with Emami Group

Applicable Criteria

[Criteria on assigning Outlook & Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Consolidation & Factoring linkages in Rating](#)

About the Company

Emami Agrotech Ltd (EAL), belonging to the Emami Group of Kolkata, is engaged in refining of various oils (palm, soya, sunflower, rice bran & 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 brand 'Rasoi' in FY15. Moreover, for forward integration it has expanded the product portfolio to include more value added products used in bakery industry, sold under the brand name 'Bakemagic'. In August 2019, Healthy and Tasty entered into the spices category with the launch of its sub-brand Mantra - a range of 100% natural and fresh spices, masalas and tastemakers which is a high margin focus segment. The sale of branded oil contributed to around 50% of net sales in FY19 (44% of net sales in FY18).

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	9034.31	12525.68
PBILDT	323.64	391.83
PAT	90.12	125.33
Overall gearing (times)	2.28	1.70
Interest coverage (times)	1.74	1.47

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
Fund-based - LT-Term Loan	-	-	Jan 2027	1401.26	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	5460.30	CARE A2
Non-fund-based - ST-Bank Guarantees	-	-	-	80.00	CARE A2

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	1401.26	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-19)	1)CARE A-; Stable (17-Aug-17)	1)CARE BBB+; Stable (12-Jan-17)
2.	Non-fund-based - ST-Letter of credit	ST	5460.30	CARE A2	-	1)CARE A2 (08-Jan-19)	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)	1)CARE A3+ (12-Jan-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	80.00	CARE A2	-	1)CARE A2 (08-Jan-19)	1)CARE A2 (25-Jan-18) 2)CARE A2 (17-Aug-17)	1)CARE A3+ (12-Jan-17)

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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