

Empire Industries Limited

July 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	45.94	CARE A; Stable (Single A ; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	25.00	CARE A1 (A One)	Reaffirmed
Total Facilities	70.94 (Rupee Seventy crore and ninety four lakh only)		
Fixed Deposit programme	83.00 (Rupees Eighty Three crore)	CARE A (FD); Stable [Single A (Fixed Deposit); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Empire Industries Limited (EIL) continue to factor in established track record and experience of the promoters managing diversified businesses as well as established and known client profile. The ratings also factor in comfortable capital structure, low dependence on working capital limits and healthy cash flows majorly generated from the property rental business.

However, these rating strengths are tempered by stagnant business operations in manufacturing and agency business, high competition prevalent in the property leasing business which is also exposed to rollover risk, increase in working capital requirement related to sea food exports business, project execution and salability risk associated with the Ambernath real estate project as well as stabilization risk associated with vitrum glass division up-gradation project.

With regards to the ongoing real estate project, the company will start the next phase only when the existing phase is fully completed and there are no plans to avail any external debt to fund the on-going Ambernath real estate project. Any significant debt availed to fund the same which may lead to deterioration in capital structure is the key rating sensitivity. In addition, improvement in profitability and efficient working capital management are also crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record with highly experienced promoters: EIL has a long track record in manufacturing of vitrium glass. Over the years the company has also diversified businesses. Mr. S C Malhotra is the Promoter cum Chairman of the company and with over six decades of experience in the industry currently looks after the overall corporate responsibilities. The top management is also supported by professionals having significant experience in their respective field.

Diversified revenue profile: The Company's revenue profile has been diversified with EIL operating in multiple divisions; whereby core competence is in glass division. However, over the years decrease in revenue from vitrum glass division owing to competitive nature of business has resulted in company diversifying into various other segments like trading of food products, lease income earned from property rentals, trading of machine tools & equipment as well as business support service. The company garners major profitability from its lease business followed by glass division and food division.

Diversified client profile with long standing relations: The Company has long established associations with large pharmaceutical companies namely Glaxo Smithkline Pharma Ltd., Emami Pharmaceuticals, Griffon Laboratories Pvt. Ltd., Abbot Laboratories Ltd., Himalaya Drug Co. and others for its vitrum glass division. Further, for other divisions as well, the company has tie-ups with reputed players.

Low geographic concentration risk: The Company started processing and export of seafood in FY18. In first full year of operations (FY19), the company recorded revenue of Rs.73 crore from this division. The company has exposure in USA, European Countries and Middle East countries. The increasing footprints in overseas markets reduce the risk of geographical concentration.

Moderate profitability: EIL's total operating income registered a growth of 12% to Rs. 539.63 crore in FY19 contributed majorly by export of processed prawns and shrimps. The company's profitability margin at PBILDT levels stands moderate at

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

13.39% in FY19. The decline in profitability at PBILDT level from 14.75% in FY18 to 13.39% in FY19 is mainly due to increase in import cost of frozen foods coupled with revenue loss in lease rental division due to exit of one of the tenants. The vacant space has been occupied during the last quarter of FY19 and also, with increased efficiency of glass plant, the margins are expected to remain healthy. The company is currently replacing the furnace in its vitrum glass plant at a total cost of Rs. 60 crore, for which it will borrow term loan of Rs. 45 crore.

Comfortable liquidity position: The liquidity profile of the company stands comfortable with healthy cash accruals from the property rental business, unused working capital limits (low fund based working capital utilization of around 30.00% for twelve months ending June 2019) and free bank deposits in excess of Rs.25 crore as on March 31, 2019. The company has low repayment of Rs. 17 crore in FY20 as compared to the expected cash accruals.

Comfortable capital structure and debt protection metrics: The debt levels in the company slightly increased as on March 31, 2019 mainly due to utilization of working capital limits for frozen food business which has resulted in marginal deterioration in the gearing levels from 0.86x as on March 31, 2018 to 0.95x as on March 31, 2019. Overall gearing is expected to deteriorate further on account of term loan for the ongoing capex and increase in working capital requirement for the seafood export business. However, the same is expected to improve in the medium term on the back of healthy profits.

Marginal deterioration is also observed in the debt protection metrics; yet stood comfortable with total debt to GCA stood at 3.81x and interest coverage at 3.61x in FY19.

Key Rating Weaknesses

Large size of real estate project development: The overall project cost of developing 35 acre plot is estimated around Rs.1200 crore (vis-à-vis Rs.982.84 crore estimated earlier); of which Phase I is under development with total saleable area of 4.55 lakh square feet. Phase I under implementation which comprises of 2 industrial and 3 residential buildings with total cost of Rs.110 crore, is completed to the extent of 90% till June 2019. However, the risk prevails with regards to execution of the larger parcel of land, as the execution is highly dependent on the customer advances.

Moderate salability risk: The Company has sold 71% of the total saleable area till May 2019 with total agreement value of Rs.87.81 crore, out of which advances of Rs.73.00 crore have already been received. Further, the salability risk remains for the balance portion of unsold area.

Presence in highly competitive commercial space: Over the period, the areas (Parel and Vikhroli in Mumbai), where EIL's leased properties are located, have developed as hub for corporate offices, banks, and IT service providers. As a result, many other companies have developed their properties in these areas. Thus, competition exposes the company to rollover risk and reduces its ability to increase average rental prices.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

EIL is a century old company engaged in diverse businesses. The company is promoted by Mr S C Malhotra who currently looks after the overall corporate function. The main business division of the company are Vitrum glass division which is engaged in manufacturing of amber glass bottles for pharmaceutical industry, food division involved in importing and distribution of sea foods, agency business involved in procurement of machine tools/industrial equipment from foreign principals on behalf of domestic clients and property rental business. The company is also undertaking a real estate project in Ambarnath, Mumbai.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	482.01	539.63
PBILDT	71.12	72.24
PAT	46.67	43.83
Overall gearing (times)	0.86	0.95
Interest coverage (times)	4.37	3.67

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-Cash Credit	-	-	-	12.97	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A1
Fund-based - LT-Term Loan	-	-	November 2037	32.97	CARE A; Stable
Fixed Deposit*	-	-	-	83.00	CARE A (FD); Stable

*The tenure for fixed deposit program ranges between 6 to 36 months

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.	Fixed Deposit	LT	83.00	CARE A (FD); Stable	-	1)CARE A (FD); Stable (26-Jul-18)	1)CARE A (FD); Stable (24-Jul-17) 2)CARE A (FD); Stable (26-Jun-17)	-
2.	Fund-based - LT-Cash Credit	LT	12.97	CARE A; Stable	-	1)CARE A; Stable (26-Jul-18)	1)CARE A; Stable (24-Jul-17)	-
3.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A1	-	1)CARE A1 (26-Jul-18)	1)CARE A1 (24-Jul-17)	-
4.	Fund-based - LT-Term Loan	LT	32.97	CARE A; Stable	-	1)CARE A; Stable (26-Jul-18)	-	-

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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