Empire Industries Limited

September 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities – Cash credit	92.97 (increased from 12.97)	CARE A; Negative (Single A ; Outlook: Negative)	Revised from CARE A; Stable
Long Term Bank Facilities – Term Loan	120.93 (increased from 32.97)	CARE A; Negative (Single A ; Outlook: Negative)	Revised from CARE A; Stable
Short-term Bank Facilities	135.00 (increased from 25.00)	CARE A1 (A One)	Reaffirmed
Total bank facilities	**348.90 (Rs. Three hundred forty eight crore and ninety lakhs only)**		
Fixed Deposit programme	**83.00 (Rupees Eighty Three crore)**	CARE A (FD); Negative [Single A (Fixed Deposit); Outlook: Negative]	Revised from CARE A (FD); Stable

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The outlook for long term bank facilities has been revised from 'Stable' to 'Negative' while reaffirming the ratings assigned to the bank facilities and instruments of Empire Industries Limited (EIL). This mainly factors continued decline in profitability expected during FY21 on account of low profitability from all other divisions except the lease rental division. Also, the debt levels are expected to remain high with low scheduled term loan repayments and continued high working capital requirement. The net profit of the company has been declining from the past two years and debt levels increased as on March 31, 2020. The company incurred debt funded capex plan in vitrum glass division during FY20. Moreover, frozen food export division has witnessed an increase in working capital requirement during past two years. During FY20, except for lease rental and real estate division all other divisions reported lower profitability vis a vis previous year. On March 22, 2020, the Govt. of India announced nationwide lockdown leading to temporary closure of non-critical establishments and inter-state transportation. This impacted operations of all the divisions except the lease rentals during Q1FY21. Although the operations of said divisions have started to normalize from Q2FY21 onwards after GOI announced 'UNLOCK' measures, the ability of company to achieve projected scale of operations and profitability remains to be seen. EIL plans to compensate revenue loss in domestic frozen food business through increase in share from export markets. This would lead to further increase in working capital requirement thereby impacting profitability.

The ratings continue to benefit from established track record and experience of the promoters managing diversified businesses as well as established and known client profile. The ratings also factor in moderate capital structure 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 frozen 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. Although company's business operations across all segments have started to normalize post Q1FY21 onwards, the company's ability to achieve projected scale of operations while maintaining financial liquidity amidst the challenging macro environment remains to be a key monitorable.

Key rating sensitivities

Positive factors:

- Improvement in PAT margins above 10% on sustainable basis through improvement in scale of operations coupled with cost optimization
- Improvement in ROCE above 20% on a sustained basis through improvement in cash flows

Negative factors:

- Increase in operating cycle above 220 days on sustained basis through deterioration in collection period and increase in inventory holding period.

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

- Increase in overall gearing above 1.5 times owing to debt funded capex plan over medium term or owing to increase in working capital requirement.

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 vitrum glass. Over the years, the company has also diversified into various 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 its 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 such as trading of food products, lease income earned from property rentals, trading of machine tools & equipment as well as business support service. The company garnered major profitability from its lease business followed by food division and glass division during FY20.
The company recorded revenue of Rs.584.56 crore in FY20 (PY: Rs.539.63 crore) and Rs.94.46 crore in Q1FY21 (Q1FY20: Rs.130.44 crore).

Established track record of servicing reputed clientele
EIL's operations comprise diversified businesses and thus caters to a wide clientele. The company has long association with large pharmaceutical for its vitrum glass division. Further, company has tie-ups with reputed hotels for its food division. For lease business, the company has tenants with strong credit profile. Agency business has customers from Germany, Russia, Korea, France, Spain, Japan, Romania, Italy, UAE, Netherlands, China and others. Thus, the company has wide spread and long term relationships with its clientele which helps the company in securing repeat orders.

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 and recorded revenue of Rs.114 crore during FY20. 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 capital structure and adequate liquidity profile
Overall gearing of EIL (excluding impact of lease obligations) increased to 1.25 times as on March 31, 2020 from 0.95 times as on March 31, 2019 as company availed term loan amounting Rs.45 crore for funding vitrum glass capex during FY20. Moreover, working capital utilization increased owing to food division export business. During FY20, company incurred capital expenditure of around Rs.60 crore for the vitrum glass unit for replacement of the machinery. On account of lower PAT and increase in debt the debt protection metrics have deteriorated as on March 31, 2020. The total debt / gross cash accruals ratio deteriorated from 3.81 times as on March 31, 2019 to 6.37 times as on March 31, 2020 and PBILDT / interest coverage ratio declined from 3.67 times as on March 31, 2019 to 2.67 times as on March 31, 2020.
Going ahead, company does not have any major debt funded capex plans over medium term. Hence, debt coverage indicators are expected to remain moderate.

Key Rating Weaknesses
Moderate profitability
The company garners major profitability from its lease business followed by food division and glass division. The company's profitability margin at PBILDT level has improved from 13.39% in FY19 and to 14.43% in FY20 owing to increased profits from real estate division. However, PAT declined from Rs.44 crore in FY19 to Rs.34 crore in FY20 mainly owing to significant increase in interest costs. The increase in interest costs is mainly owing to debt funded capex plan during FY20 and increase in working capital requirement due to food division export business.
In Q1FY21 EIL's PBILDT and PAT margin stood at 16.43% and 2.45% respectively. Going forward, PBILDT margins are expected to be in range of 12%-15% over medium term.

Moderate salability risk
The Company has sold 76% of the total saleable area (phase I has total saleable area of 455278 square feet) till July 2020 with total agreement value of Rs.103.29 crore, out of which advances of Rs.83.00 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. Presently, occupancy level of Lower Parel stood at 87% (owing to partial exit of RBS Bank) and Vikhroli properties stood at 100%. In 'Empire Business Centre', company leases conference rooms and individual office desks. The occupancy level of the same has reduced to 40% from 80% earlier owing to 'Work from home' offered by many clients.

Liquidity: Adequate

The company availed for moratorium for interest and term loan repayment obligations falling in Q1FY21 which was approved by lenders as per RBI guidelines. However, during Q2FY21 they have started servicing debt and interest obligations. The company has repayment obligations in FY21 (from Q2FY21 - Q4FY21) amounting to Rs.12.55 crore. The company has adequate liquidity in form of cash and cash accruals from lease rental business. Moreover, company's free cash and cash equivalents and unencumbered fixed deposits stood at Rs.13.15 crores and Rs.49.36 crore respectively as on July 20, 2020. Additionally the average utilization of fund based facilities for past 12 months stood at 41.88%. The company does not have any major debt funded capex plans over medium term.

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
Liquidity Analysis of Non-Financial Sector Entities

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 Ambernath, Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	539.63	584.56
PBILDT	72.24	84.34
PAT	43.83	34.18
Overall gearing* (times)	0.95	1.25
Interest coverage (times)	3.67	2.67

**Excluding impact of lease obligations 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	-	-	FY25	92.97	CARE A; Negative
Non-fund-based - ST-BG/LC	-	-	-	135.00	CARE A1
Fund-based - LT-Term Loan	-	-	-	120.93	CARE A; Negative
Fixed Deposit*	-	-	-	83.00	CARE A (FD); Negative

*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 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.	Fixed Deposit	LT	83.00	CARE A (FD); Negative	-	1)CARE A (FD); Stable (30-Jul-19)	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	92.97	CARE A; Negative	-	1)CARE A; Stable (30-Jul-19)	1)CARE A; Stable (26-Jul-18)	1)CARE A; Stable (24-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	135.00	CARE A1	-	1)CARE A1 (30-Jul-19)	1)CARE A1 (26-Jul-18)	1)CARE A1 (24-Jul-17)
4.	Fund-based - LT-Term Loan	LT	120.93	CARE A; Negative	-	1)CARE A; Stable (30-Jul-19)	1)CARE A; Stable (26-Jul-18)	-

Annexure-3: Details of Covenants of rated instruments: Not available

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	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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