Press Release

Etc Agro Processing India Private Limited

September 20, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs.320.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.320.00 crore bank facilities of ETC Agro Processing India Private Limited (EAPIL). The outlook is **'Stable'.**

Incorporated in 2008, EAPIL is a part of ETG Group, Africa's largest agricultural supply chain group with significant global presence in merchandising, distribution and processing of agricultural commodities, farm inputs and farm implements, and consumer brands. ETG has presence in more than 40 countries in five continents.

ETG Group has presence in India through EAPIL and ETG Agro Private Limited (EAPL). The Indian operations mainly comprises of trading of commodities such as Rice, Black Matpe (Black Gram), Sesame Seed, Toor Dal, Green Moong, Lentils, Yellow Peas, Wheat, Maida among others and Pulses processing & marketing. EAPL and EAPIL have processing units located at Gujarat (Vasad), Maharashtra (Khopoli) and West Bengal (Kolkata) with total combined capacity of 557,280 MT.

Analytical Approach

Acuité has consolidated business and ETC Agro Processing India Private Limited and ETG Agro Private Limited, hereinafter referred to as ETC India, till FY2018 as the entities got merged in FY2019. The consolidation is on account of similarity in the line of business, significant financial and business synergies. Acuité has subsequently notched up the rating by factoring in the strong operational and financial support extended by ETG Group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established presence of the group in agricultural value chain**

ETG group is a global diversified agricultural conglomerate having presence across 40 countries. The group has presence in five verticals namely fertilizers, logistics, exchange traded products, consumer brands and cash trade.

ETG annually transfers more than six million metric ton of agricultural commodities around the world. The group's diversified portfolio is over 30 different commodities of which 8-12 are prime commodities, which includes cashews, oilseeds, sugar, coffee, pulses, wheat, fertilizer, rice, maize and sesame seeds.

The group supplies farming inputs such as seeds, agro-chemicals, fertilizers and agronomic services to the farmers, while purchasing farmers' agricultural outputs. ETG's fertilizers are sourced from Middle East, Russia, Jordan, Ukraine, Madagascar and China. The group sells its fertilizers under the brand name Alcon, Zambian Fertilizer and Kynoch.

The group has extensive logistic network having capacity of over 2.5 million metric tonnes across 45 different countries. The group's network includes over 300+ warehouses, procurement and distribution centres, container terminals and a fleet of trucks and barges, all of which allows ETG to procure product at farm gate level, thereby eliminating the use of middlemen and further enhancing margins. Further, ETG is the world's largest processor for specialized pulses, having 8 processing plants running in Africa, UK, China, Americas, Middle East and India. More than 50 per cent of the volumes are processed at plants in India, UAE, Ethiopia, Malawi, Mozambique, Tanzania and Canada.

The group has established distribution network spread across countries allows the company to control the flow of products both in and out of key markets, create significant cost efficiencies and exercise choice in terms of commodity movement and transaction timing. The diversified business profile has helped the company to reduce its customer concentration risk with its top 10 customers contributing to around 12 per cent of the total revenue of the group for FY2018

Acuité believes that the group will continue to benefit from its promoter's extensive experience in the industry and its presence across the value chain over the medium term

- **High level of support to the Indian entities**

India accounts to around 14 per cent of the total revenues of the group. The group has demonstrated track record for supporting the Indian entities by way of equity infusion and unsecured loans on timely basis. The borrowings of EAPIL and EAPL are supported by the corporate guarantee of the group. This has enabled the Indian entities to raise funds at competitive pricing notwithstanding their average standalone financials.

Acuité believes that credit profile of EAPIL and EAPL will continue to be supported by their association with the ETG Group. Further, continued ownership pattern of these entities by promoters of ETG Group and the credit profile of ETG Group will remain key rating sensitivities.

Weaknesses

- **Profitability exposed to volatility in the commodity market**

ETG Group on a consolidated level registered revenues of USD 3.01 Billion for FY2018, which deteriorated from USD 3.66 billion for FY2017. The decline in the revenues was mainly on account of slowdown in the pulses market. The Indian operations were also impacted in FY2018 with EAPIL and EAPL registering combined revenue of Rs.1463.43 crore as against Rs.2031.33 crore for FY2017. The revenue decline was mainly on account of changes in government regulations. However, FY2019 revenues have improved with group revenues of USD 3.07 billion and Indian revenues of Rs. 2062.01 crore.

The commodity market exhibits high degree of volatility. Their prices depend on various parameters such as government policies, climatic conditions, global demand supply dynamics among others. Any sharp deviation in these commodity prices can have a significant impact on the operations of players such as ETG Group. Moreover, the commodity trading business has thinner margins owing to less value addition and high competition from several mid to large size players in the industry.

Acuité expects that the revenues and margins of the group will remain exposed to fluctuations in the commodities prices and intense competitive landscape.

- **Moderate debt protection matrices at group level**

The ETG Group, on a consolidated level, has moderate debt protection matrices marked by high adjusted gearing* (Total Gross Debt to Adjusted Net Worth) of 2.30 times as on 31 March, 2019 as against 1.78 times as on 31 March, 2018. This was mainly on account of increase in the debt levels and deterioration in the net worth on account of losses in group entities. The total debt mainly consists of working capital limits. The Interest Coverage* (PBITDA/ Interest) improved marginally to 2.18 times for FY2019 from 2.01 times for FY2018 on account of decrease in the interest cost. The Debt to EBIDTA* stood high at 9.73 times for FY2019 on account of higher debt commitments required for its capital expenditure and working capital requirement and lower operating performance.

Acuité believes that the ability of the group to improve its operational performance, thereby improving its debt protection matrices, will be a key rating sensitivity.

**(Total gross debt of USD 1488.40 Million is excluding unencumbered cash and bank balances of USD 110.92 Million.*
Adjusted Net Worth= Equity + Share Premium + Retained Earnings + Non-Controlling Interest - Revaluation Reserve - Goodwill/Intangible Assets. The Foreign Currency Translation Reserve is not considered while calculating adjusted net worth.
PBDITDA= PBT + Depreciation + Interest Cost)
Interest Cost is considered on gross level)

Liquidity position

EAPIL and EAPL on standalone basis have weak liquidity position on account of losses in FY2018 and FY2017. However, liquidity profile of these entities is supported by ETG Group by timely infusion of funds through equity or unsecured loans. The bank borrowings of EAPIL and EAPL are supported by corporate guarantee of the ETG Group. The association with ETG Group has helped these entities to refinance their debts at competitive rates.

Outlook: Stable

Acuité believes EAPIL will maintain a 'Stable' credit profile over the medium term on back of its association with the ETG Group. EAPIL will continue to benefit from extensive support from ETG Group. The outlook may be revised to 'Positive', in case the company is able register healthy growth in net cash accruals and profitability, while improving the debt protection indicators and capital structure. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in the company's net cash accruals or profitability leading to sharp decline in its debt protection indicators.

About the Rated Entity - Key Financials*

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2062.01	1,463.43	2,031.33
EBITDA	Rs. Cr.	101.83	11.34	(9.47)
PAT	Rs. Cr.	45.22	(37.54)	(42.02)
EBITDA Margin	(%)	4.94	0.77	(0.47)
PAT Margin	(%)	2.19	(2.56)	(2.07)
ROCE	(%)	17.69	0.31	(3.89)
Total Debt/Tangible Net Worth	Times	1.97	1.97	3.63
PBDIT/Interest	Times	2.67	0.30	(0.12)
Total Debt/PBDIT	Times	3.76	25.56	(91.19)
Gross Current Assets (Days)	Days	174	109	114

**FY2017 and FY2018 financials EAPIL and EAPL are consolidated and FY2019 financials are standalone financials of EAPIL, taking into account the merger of EAPIL and EAPL.*

Status of non-cooperation with previous CRA (if applicable)

CARE, vide its press release dated April 5, 2019 had denoted the rating of ETC Agro Processing India Private Limited as 'CARE BBB (SO)/CARE A3 (SO); ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading Entities - http://acuite.in/view-rating-criteria-6.htm
- Criteria For Group And Parent Support - https://www.acuite.in/view-rating-criteria-24.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB+/Stable
Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB+/Stable
Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE BBB+/Stable

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