

Press Release

Etc Agro Processing India Private Limited

December 31, 2020

Rating Reaffirmed, Withdrawn, and Assigned



Total Bank Facilities Rated*	Rs.320.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed, Withdrawn & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.220.00 crore bank facilities of ETC Agro Processing India Private Limited. The outlook is '**Stable**'.

Acuite has withdrawn its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.100.00 crore bank facilities of ETC Agro Processing India Private Limited.

Acuite has reaffirmed its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.100.00 crore bank facilities of ETC Agro Processing India Private Limited. The outlook is '**Stable**'.

About the Company

Mumbai-based, ETC Agro Processing India Private Limited (EAPIL) was incorporated in 2008 and is 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 group has presence in more than 40 countries in five continents and in India they have presence through EAPIL. The Indian operations mainly comprise 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 processing & marketing of Pulses. EAPIL has processing units located in Gujarat (Vasad), Maharashtra (Khopoli) and West Bengal (Kolkata) with a total combined capacity of 499,000 MT.

Analytical Approach

Acuite has changed the analytical approach to a standalone approach from a consolidated approach, as ETG Agro Private Limited (EAPL) got merged into ETC Agro Processing India Private Limited (EAPIL) during FY2019. Acuite has considered the standalone business and financial risk profile of ETC Agro Processing India Private Limited (EAPIL) to arrive at this rating. Acuite has subsequently notched up the rating by factoring in the strong operational and financial support extended by ETG Group.

Key Rating Drivers

Strengths

- **Established presence of the group in the 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. 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. Group sells its fertilizers under the brand name Alcon, Zambian Fertilizer and Kynoch.

The group has extensive logistic network having capacity over 2.5 million metric tonnes across 45 different countries. 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 percent 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 them 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.

Acuite 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.

- **Strong support by the parent group**

India accounts to around 10 percent of the total revenues for the group. The group has demonstrated track record for supporting the Indian entity by way of equity infusion and elongated credit period as group entities are one of the major supplier for trading segment. The borrowings of the EAPIL are supported by the corporate guarantee of the group. This has enabled the EAPIL to raise funds at competitive pricing, notwithstanding their average standalone financials.

Acuite believes credit profile of EAPIL will continue to be supported by their association with the ETG group. Further, continued ownership pattern of the EAPIL by promoters of ETG group and the credit profile of the ETG group will remain key rating sensitivities.

Weaknesses

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

The commodity market exhibits high degree of volatility. Their prices depend on various parameters such as government policies, climatic conditions, and global demand supply dynamics, among others. Any sharp deviation in these commodity prices can have a significant impact on the operations of players like 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. Operating margins reduced to 3.78 percent in FY2020 (Provisional) from 4.94 percent in FY2019 for EAPIL and reduced to 4.49 percent in FY2020 from 4.87 percent in FY2019 for ETG Group.

Further, ETG Group on a consolidated level registered a revenue growth of ~24 percent in FY2020 over FY2019, operating income stood at USD 3.81 Billion in FY2020 as against USD 3.01 Billion. Operating income in the EAPIL also improved to Rs.2432.88 crore in FY2020 (Provisional) from Rs.2062.01 crore in FY2019.

Acuite 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 metrics at group level**

The ETG group on a consolidated level has a moderate debt protection matrices marked by high gearing* (Total Gross Debt to Tangible Net Worth) of 2.31 times as on 31 March 2020 as against 2.30 times as on 31 March 2019. The total debt mainly consists of working capital limits. The Interest Coverage* (PBITDA/ Interest) reduced marginally to 2.12 times for FY2020 from 2.18 times for FY2019 on account of decrease in profitability. The Debt to EBITDA* stood high at 8.96 times for FY2020 on account of higher debt commitments required for its capital expenditure and working capital requirement and lower operating performance.

Acuite believes 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 1530.32 Million is excluding unencumbered cash and bank balances of USD 48.75 Million.
Tangible Net Worth= Equity + Share Premium + Retained Earnings + Non-Controlling Interest - Revaluation Reserve - Translation Reserve- Goodwill/Intangible Assets.
PBITDA= PBT + Depreciation + Interest Cost)
Interest Cost is considered on gross level)

Liquidity Profile: Adequate

EAPIL on standalone basis has weak liquidity position marked by net cash accruals of Rs.12.86 crore in FY2020 as against repayment obligation of Rs.33.50 crore for the same period. However, liquidity profile of EAPIL is supported by ETG Group. The bank borrowings of EAPIL and EAPL are supported by corporate guarantee of the ETG Group. The association with ETG Group has helped these EAPIL to refinance their debts at competitive rates.

Rating Sensitivities

- Lower than expected operating performance
- Significant decline in profitability margins
- Any deterioration in the credit profile of ETG Group

Outlook: Stable

Acuite believes EAPIL will maintain a stable outlook 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 a sharp decline in the company's net cash accruals or profitability leading to a sharp decline in its debt protection indicators.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2432.88	2062.01
PAT	Rs. Cr.	1.93	45.22
PAT Margin	(%)	0.08	2.19
Total Debt/Tangible Net Worth	Times	1.08	1.97
PBDIT/Interest	Times	1.64	2.67

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Criteria for Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
20-Sep-2019	Working Capital Demand Loan	Long term	100.00	ACUITE BBB+/Stable (Assigned)
	Working Capital Loan	Long term	100.00	ACUITE BBB+/Stable (Assigned)
	Working Capital Loan	Long term	120.00	ACUITE BBB+/Stable (Assigned)

***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 (Reaffirmed)
Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB+ (Withdrawn)
Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	120.00	ACUITE BBB+/ Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB+/ Stable (Assigned)

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About Acuité Ratings & Research:

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