March 09, 2021

Cargill India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Fund-based/ Non-fund Based Facilities (part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated)***	$50.00 million	$50.00 million	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+; Reaffirmed
	$330.13 million	$330.13 million	[ICRA]A1+; Reaffirmed
Fund based/ Non-fund-based facilities***	$50.00 million	$50.00 million	[ICRA]A1+; Reaffirmed
Short-term Non-fund based**	Rs. 1,060.00 crore	Rs. 0.00 crore	-
Commercial Paper	Rs. 300.00 crore	Rs. 300.00 crore	[ICRA]A1+; Reaffirmed

Rating Without Explicit Credit Enhancement	[ICRA]A+

**Instrument details are provided in Annexure-1; **100% cash backed facility; ***The company has corporate guarantee from Cargill Incorporated, USA for these facilities*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA+(CE)(Stable) rating

The above rating is based on the strength of the corporate guarantee[1] provided by Cargill Incorporated, USA (Cargill Inc., rated A2 (Stable)/P-1 by Moody's Investor Services), the ultimate holding company of Cargill India Private Limited (CIPL), for the rated fund-based/ non-fund based facilities. The Stable outlook on this rating reflects the strong credit profile of the guarantor, Cargill Inc.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by Cargill Inc. in favour of the said facility. While the guarantee is unconditional and continuing, it does not have a well-defined invocation and payment mechanism. Considering the same, ICRA has assigned a rating of [ICRA]AA+(CE) to the said facility against the Unsupported Rating of [ICRA]A+ (and in relation to the guarantor's credit profile). In case the credit profile of the guarantor or the Unsupported Rating of CIPL was to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility/instrument as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or a change in the guarantor's reputation sensitivity to a default by the rated entity, or a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

[1] *Please note that in the event that the Guarantor revokes or discontinues the guarantee, the captioned rating will not apply in respect of any incremental exposure taken by the bank on the borrower after the revocation or discontinuation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed.*

- *The guarantor unconditionally guarantees that it will pay to the bank any amount due and payable, but unpaid within 10 New York business days from the date of the Bank's written notice.*
- *The guarantee amount is limited to the overall limit sanctioned by the bank, plus accrued interest and the reasonable and properly documented out-of-pocket costs of enforcing the obligations of the Guarantor including attorney's fees.*
- *It is a continuing guarantee but may be revoked by the guarantor at any time by sending the Bank a written notice of such revocation, which shall be effective 10 New York days after receipt of such notice by the Bank. However, the guarantee and the Guarantor's liability shall continue in full force for any transaction entered into, prior to the effective date of revocation.*
- *The guarantee shall be governed by and construed in accordance with the laws of the State of New York, United States of America.*
- It is not explicitly mentioned that the support covers the entire tenure of the loan but there is no clause, which suggests that the guarantee is valid only up to a certain date/period.

For the [ICRA]A+(Stable)/[ICRA]A1+ ratings

The rating reaffirmation continues to draw comfort from CIPL's strong linkages and strategic importance for its ultimate holding company, evidenced by the continued financial support extended by the former in the form of regular equity infusion, external commercial borrowings (ECB), as well as corporate guarantees for banking facilities. The rating favourably factors in the strategic importance of the Indian market for Cargill Inc., which has infused over Rs. 1,600 crore of equity in the past eight years; and in line with the strategy of Cargill Inc., CIPL has invested in the creation of manufacturing infrastructure in India. The company had also invested towards acquisition of Sweekar and Leonard brands and continues to be on the lookout for further such acquisitions for its refined oil division, which is the largest revenue driver in India (~64% of revenues in FY2020). ICRA notes that CIPL continues to benefit from the strong operational linkages with its parent through access to its relationships for sourcing raw material and tradable commodities, extended credit period, benefits from global relationships in food and related industries, access to the knowledge related to commodity flows and alignment of risk management practices with the parent.

The above strengths are partially offset by the relatively low profitability of the entity, because of limited pricing power in the edible oils business owing to stiff competition, coupled with volatility in input prices and foreign exchanges rates, and high operating expenses. Exposure of CIPL's trading business to changes in Government policies for agricultural commodities also poses a risk. However, the same is mitigated to an extent by CIPL's plans to enhance its presence in other product categories.

The Stable outlook on the long-term rating reflects ICRA's opinion that CIPL will continue to benefit from the operational and financial support from its ultimate holding company, given the strategic importance of the Indian market.

Key rating drivers and their description

Credit strengths

Regular operational and financial support from parent company – As a subsidiary of Cargill Inc., the company benefits through the former's extensive global experience in sourcing and logistics network. Strong risk management practices, experience in trading in various commodities and access to financial support from Cargill Inc. help CIPL with timely debt servicing. Moreover, the parent's strategic and reputational considerations, besides the explicit commitment shown by way of issuing a corporate guarantee for CIPL's bank facilities are other favourable factors.

Strategic importance of the company in the parent's portfolio – Support from the parent is expected to continue as India is among the strategic and critical growth markets for the Cargill Group. Operational synergies are evidenced from CIPL's high procurement, almost 26% of its raw material requirement in FY2020, from its group companies.

Improving product diversification besides backward integration – CIPL currently undertakes refining, packaging and sales of edible oils as well as trading of agricultural commodities. Apart from trading in grains and refined oil, CIPL has also made an entry into corn milling and flour milling and is planning to expand its presence in speciality fats (used in ice creams and baby food) as well as speciality ingredients (used in culinary and pharmaceutical industries). Moreover, the company is planning to make in-roads into chocolates under its brand, 'Nature Fresh Professional'. The revenue streams from such value-added products would aid in bringing stability to earnings and cash flows, while improving profitability over the long-term.

Credit challenges

Rangebound profitability and relatively weak debt servicing indicators – Ranging between 0.5-2.2%, CIPL's operating profitability margins have been rangebound over the past six years primarily because of limited pricing power in the edible oils business (which accounted for nearly 64% of the company's revenues in FY2020) owing to stiff competition, volatility in input prices and foreign exchanges rates, and high operating expenses. This has resulted in relatively weak debt coverage ratios with interest cover of 1.7 times and TD/OPBDITA of 9.8 times as on March 31, 2020. However, risk to overall credit profile is mitigated by regular finance support from the parent company. Going forward, with revenue expected to grow by mid-to-high single digits, CIPL's coverage indicators are expected to improve over the medium term.

Highly competitive refined oil segment – CIPL derives nearly two-thirds of its revenues from the refined edible oils segment. Although most of the company's edible oil business is generated through retail channels (74%) and marketed through various brands with healthy market share, the profitability of the business has been low and volatile owing to stiff competition and fluctuation in input costs. The risk is partially mitigated by CIPL's focus on the premium segment with higher entry barriers.

Trading business exposed to risk of changes in Government policies – Trading in agricultural commodities remains exposed to changes in Government policies, especially for commodities such as cotton, edible oils and sugar, among others. However, ICRA notes that the trading of these commodities is opportunistic in nature. This risk is also mitigated by CIPL's plans of enhancing its presence in other product categories, namely starch, sweeteners, chocolates and animal feed.

Liquidity position

For the [ICRA]AA+(CE)(Stable) rating: Superior

The liquidity position of the guarantor, Cargill Inc., is **superior**, supported by cash and short-term investments ($2.4 billion as on February 29, 2020), $5.0 billion of committed syndicated credit facilities in the US, and committed credit facilities of $1 billion focused on non-US markets. Additionally, Cargill has more than $20 billion of uncommitted lines (mostly used by its international operations), readily marketable inventory (RMI), and viable secured monetisation alternatives for accounts receivable and inventories.

For the [ICRA]A+(Stable)/[ICRA]A1+ ratings: Adequate

CIPL's liquidity is **adequate** supported by availability of regular and need-based financial support from the parent as well as availability of undrawn working capital limits from banks and commercial paper to the tune of ~Rs. 2,068.9 crore as on March 31, 2020. The company has limited long-term debt repayments and those are also to related parties.

Rating sensitivities

Positive factors: An improvement in Cargill Inc.'s credit profile will be considered favourably for CIPL's rating.

Negative factors: A negative rating action could be triggered if there is any change in the parent's ability to support the company, or if a material deterioration in the parent's credit metrics impacts its rating or any misalignment of CIPL's synergies with the parent entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Solvent Extraction (Edible Oil) Industry Rating Methodology for Trading Companies Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Cargill Inc. The unsupported rating factors in the very high likelihood of its ultimate holding company extending financial support to it because of close business linkages between them. We also expect Cargill Inc. to be willing to extend financial support to CIPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of Cargill Inc. having extended timely financial support to CIPL, whenever a need has arisen.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

CIPL, set up in 1987, is a subsidiary of Cargill Mauritius Limited (CML) and a step-down subsidiary of Cargill Inc. It is engaged in handling, shipping and processing various products, including refined oils, grain and oilseeds, sugar, cotton and animal feed. The company also has a trade and structured finance division, which provides trade support to customers.

The company's operations are handled under four broad divisions. The edible oils division is its largest revenue driver in India and is primarily engaged in refining crude edible oil into branded refined oils. Majority of the company's edible oil business is marketed through retail channels under six different brands—Sunflower, Sweekar, Leonardo, Rath, Gemini and NatureFresh—across various oil types. In addition, the company's other business divisions comprise trading in agriculture commodities such as food grains, feed grains and oilseeds, animal nutrition, and trade and structured finance.

The company currently has two refineries, one each at Kandla (Gujarat) and Kurkumbh (Maharashtra), and a corn milling plant near Davangere in Karnataka. It also has animal feed plants across Sonepat (Haryana), Rajahmundry (Andhra Pradesh) and Bhatinda (Punjab).

Key financial indicators (audited)

CIPL Standalone	FY2019	FY2020*
Operating Income (Rs. crore)	7,606.9	8,587.5
PAT (Rs. crore)	-158.5	6.2
OPBDIT/OI (%)	0.7%	2.1%
PAT/OI (%)	-2.1%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.9	2.4
Total Debt/OPBDIT (times)	24.4	9.8
Interest Coverage (times)	0.4	1.7

**Operating lease liabilities have been included while calculating debt as per Ind AS-116*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as of Dec 31, 2020	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					Mar 9, 2021	Dec 31, 2019	Nov 2, 2018	Jul 6, 2018	Dec 4, 2017
1	Fund based/Non-fund based facilities*	Long-term/ Short-term	$50.00 million	-	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+	[ICRA]AA+ (S) (Stable)/ [ICRA]A1+(S)	[ICRA]AA+ (S) (Stable)/ [ICRA]A1+	[ICRA]AA+(SO) (Stable)/ [ICRA]A1+
		Short-term	$330.13 million	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund based/ Non-fund based facilities	Short-term	$50.00 million	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Fund based facilities	Short-term	Rs. 0.00 crore	-	-	[ICRA]A1+	[ICRA]A1+	-	-
4	Commercial Paper	Short-term	Rs. 300.00 crore	Rs. 0.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**Part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Fund Based/ Non-Fund Based Facilities*	NA	NA	NA	$50.00 million	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+
NA	Fund Based/ Non-Fund Based Facilities*	NA	NA	NA	$330.13 million	[ICRA]A1+
NA	Fund Based/ Non-Fund Based Facilities	NA	NA	NA	$50.00 million	[ICRA]A1+
NA	Non-Fund based facilities	NA	NA	NA	Rs. 0.00 crore	-
NA	Commercial Paper	Yet to be placed			Rs. 300.00 crore	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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