March 11, 2022

Imcola (Exports) Limited: Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Limits	30.0	30.00	[ICRA]A2+(CE); Reaffirmed
Non-fund based limits	35.0	0.84	[ICRA]A2+(CE); Reaffirmed
Unallocated	42.0	76.16	[ICRA]A2+(CE); Reaffirmed
Total	**107.0**	**107.00**	

Rating Without Explicit Credit Enhancement	**[ICRA]A3**

**Instrument details are provided in Annexure-1;*

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

The rating is based on the strength of the letter of comfort (LOC) provided by IMC Limited (IMCL), which holds 100% stake in Imcola (Exports) Limited (IEL/ the company), for the rated bank facilities of the company. The rating reaffirmation considers IMCL's long track record in the business of tank farms and its established position in bulk liquid storage tank terminals industry, with presence across all major ports in India. IMCL's capital structure continues to remain healthy as characterised by gearing of 0.3 times and Total outside liability/Tangible Networth of 0.4 times as on March 31, 2021. Coverage indicators also remain comfortable with interest coverage at 4.30 times and Net cash accrual/Total Debt at 50% in FY2021. Also, IMCL has healthy cash and liquid investments of Rs. 884.2 crore as on March 31, 2021. However, the rating takes note of the sizeable capex towards various projects currently being undertaken by the Group; substantial performance guarantees submitted to Petroleum and Natural Gas Regulatory Board (PNGRB) for the Solapur City Gas Distribution project; and the continued support provided to certain loss-making group entities. Adherence to the project's timelines will remain a key rating sensitivity and will be monitored. Any devolvement of other contingent liabilities also remains a sensitivity factor.

The rating without explicit credit enhancement considers IEL's moderate scale of operations and lumpy nature of order flows, which amid the inherent seasonality in the business has resulted in volatile cash flows and margins depending on the timing of sales. The rating also takes into account IEL's high customer concentration risk and the moderate financial risk profile as characterised by low gearing and adequate debt protection metrics.

Adequacy of credit enhancement

The rating of the bank facilities of IEL considers the credit enhancement provided by the LOC extended by IMC Limited. As per the LOC, IMC unconditionally and irrevocably undertakes to provide financial support to IEL for enabling the company to meet its financial obligations towards discharging debt. Given these attributes, the LOC provided by IMC Limited is adequately strong to result in a rating enhancement of the said instrument to [ICRA]A2+(CE) against the Unsupported Rating of [ICRA]A3. In case the credit profile of the LOC provider witnesses change in future, the same would reflect in the rating of the aforesaid bank facilities as well.

Salient covenants related to the credit enhancement, as specified in the LOC documents

- *In the event of shortfall in cash accruals, IMC shall provide financial support that may be necessary to enable IEL to meet is financial obligations towards discharging debt.*
- *IMC has full knowledge of the facility sanctioned to IEL and the terms and conditions of that facility.*
- *IMC acknowledges that it has understood the financing documents and aware of the implications.*

- *IMC is aware the facilities are granted to IEL on the basis of this LOC.*

Key rating drivers and their description

Credit strengths

Strong parentage and explicit support from IMC Ltd – IMC Ltd has an established track record of more than five decades and is a leading player in the domestic bulk liquid storage tank terminals industry. The Group currently owns around 360 storage tanks spread over 14 ports, with a combined capacity of over 1.1 million kilolitres (kL). The Group also operates liquid terminals in Ennore and Visakhapatnam ports. IMC Ltd has an extended LoC for all the bank facilities of IEL.

Healthy capital structure of IEL– IEL's capital structure continues to be healthy given the low debt levels. Gearing and Total outside liability/Tangible Networth remains low at nil and 0.5 times respectively as on March 31, 2021.The fund based facility remains unutilized in the past one year ending December 2021. The coverage metrics remained volatile and is inline with the movement in revenue and profitability.

Stable financial performance and comfortable capital structure – The revenue of IMCL (consolidated) remained flattish with operating income of Rs. 546.3 crore in FY2021 compared to Rs. 550.2 crore in FY2020. Operating profitability(consolidated) declined marginally to 41.9% in FY2021 from 43.8% in FY2020 with increase in the handling charges, however continues to remain healthy. IMCL's capital structure continues to remain healthy as characterised by gearing (consolidated) of 0.3 times (PY 0.4 times) and Total outside liability/Tangible Networth (consolidated) of 0.4 times (PY 0.5 times) as on March 31, 2021. Coverage indictors also remained comfortable with consolidated interest coverage at 4.30 times and consolidated Net cash accrual/Total Debt at 50% in FY2021. Also, IMCL has healthy cash and investments at consolidated level of Rs. 884.2 crore as on March 31, 2021. IMCL's revenue on standalone reduced to Rs. 190.50 crore in FY2021 from Rs. 199.8 crore in FY2020 owing to decline in revenue from storage and handling. The standalone operating profitability reduced to 23.4% in FY2021 from 26.2% in FY2020 with increased employee expense. IMCL's standalone capital structure continues to moderate as characterised by gearing (standalone) of 0.4 times (PY 0.4 times) and Total outside liability/Tangible Networth (standalone) of 0.7 times (PY 0.6 times) as on March 31, 2021. Coverage indictors also remained moderate with standalone interest coverage at 1.65 times and standalone Net cash accrual/Total Debt at 17.3% in FY2021.

Credit challenges

Volatile revenues and margins of IEL – The demand for molasses is highly seasonal. The availability of molasses for exports is dependent on the competitive demand from the Indian liquor industry and the price offered in the export markets, resulting in volatile revenues and margins for IEL. Operating income increased to Rs. 62.00 crore in 9MFY2022 and Rs. 60.56 crore in FY2021 from Rs. 52.59 crore in FY2020 driven by improved export demand of molasses. Revenue from furnace oil (FO) was marginal in FY2020 and FY2021 but increased to ~Rs. 30 crore in 9MFY2022.

High customer concentration - IEL has high customer concentration with top three clients accounting for the entire sales. However, the company enjoys a long-standing relationship with these clients and has not faced any receivable issues.

Capital commitment towards operational projects and proposed capex at Group level– IMC has significant debt-funded capex plans (under standalone entity and SPVs) spread over the next three years, which will lead to significant increase in debt at the consolidated level. Further, the company is also expected to provide an equity contribution for these projects and provide support to the underperforming subsidiaries in the near to medium terms till their operations achieve stabilisation.

Performance guarantee for Solapur CGD project and other contingent liabilities – IMC has submitted performance guarantee of Rs. 615.96 crore to the Petroleum Natural Gas Regulatory Board (PNGRB) towards the City Gas Distribution project in Solapur being undertaken by the Group. The total project cost is estimated at around Rs. 331 crore. The company has incurred Rs. 112.09 crore of the project cost till December 2021 funded through Rs. 26.80 crore debt and Rs. 85.29 crore equity. IMC had received an extension for project completion given the COVID-19 pandemic till March 2023. The company has applied for additional extension citing the impact of Covid-19 second wave and the request is under consideration. Adherence to the project timelines is a key rating sensitivity and will be monitored. Further, IMC has also extended corporate guarantees to group entities and any devolvement of the same remains a sensitivity factor.

Liquidity position of LOC provider: Adequate

The liquidity position of the LOC provider, IMC Limited (consolidated) is adequate given the company has unencumbered cash and liquid investment of Rs. 884.2 crore as on March 31, 2021 and expected fund flow from operations of Rs. 150-160 crore in FY2022 against repayment obligation of Rs. 75-80 crore and capex of Rs. 75-80 crore. The increased capex outgo during FY2023-24 will be funded through drawdown of sanctioned project loans. The expected cash accruals and the cash and investment in hand should be adequate to meet the repayment obligations towards project loans. Any devolvement of contingent liabilities or write-off of underperforming investments would, however, be a sensitivity factor.

Liquidity position of IEL: Adequate

The liquidity position of IEL is adequate as IEL standalone does not have any long-term debt or capex plans and its liquidity is supported by unutilised working capital limits.

Rating sensitivities

Positive Factors – ICRA could upgrade the rating, if (a) there is improvement in LOC provider IMC's credit profile on a sustained basis aided by healthy improvement in scale of operations and profitability on sustained basis, while maintaining a healthy capital structure and the high debt funded capex being executed directly or under the SPVs are completed without major time or cost overruns; and/or (b) there is healthy improvement in the scale of operations and profitability of standalone IEL on a sustainable basis, while maintaining its healthy capital structure

Negative Factors– Any significant deterioration in credit metrics of IEL on sustained basis and/or a higher-than-expected moderation in revenue and profitability of the parent IMC Limited; or a stress on the credit metrics due to delays in execution of ongoing projects or devolvement of contingent liabilities could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed bythird-party explicit support
Parent/Group Support	Parent/Group Company: IMC Limited The rating is based on the explicit support from parent company in the form of a letter of comfort
Consolidation/Standalone	Standalone

About the company

Imcola (Exports) Ltd. IEL was established in 1992, as a 100% subsidiary of IMC, and commenced operations by taking over the molasses export business of the IMC Group. IEL enjoys stable business from the long-term relationship with its clientele and has a good network of suppliers. IEL also occasionally undertakes import trading of furnace oil depending on client requirements. It has a dedicated International Trading Department (ITD) of marketing and research personnel, which assesses availability and market conditions for molasses trading. The company holds a current Good Manufacturing Practices (cGMP) certificate from PDV and The Netherlands Feed Board, which allows IEL to export to the Netherlands, France, the UK, Germany and Belgium.

The IMC Group came into existence in 1935 with the incorporation of IMC Limited, primarily to import and export molasses. By 1950, it diversified into operating third-party bulk liquid storage tanks at various ports handling raw materials and intermediates for petroleum-oil-lubricants (POL), chemicals, petro-chemicals and vegetable oil industries. The Group currently owns and operates close to 360 storage tanks spread over 14 ports with a combined capacity of over 1.1 million kL. The Group's other interests include operating liquid cargo berths in Ennore and Visakhapatnam ports and trading molasses, petrol and petroleum products through its subsidiaries.

Key financial indicators (Audited)

IEL	FY2020	FY2021
Operating Income (Rs. crore)	52.59	60.56
PAT (Rs. crore)	4.12	0.13
OPBDIT/OI (%)	8.39%	-0.95%
PAT/OI (%)	7.83%	0.22%
Total Outside Liabilities/Tangible Net Worth (times)	0.02	0.47
Total Debt/OPBDIT (times)	0.00	0.00
Interest Coverage (times)	23.43	-1.58

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

Key financial indicators (Audited)

IMC Limited (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	550.2	546.3
PAT (Rs. crore)	145.8	152.4
OPBDIT/OI (%)	43.8%	41.9%
PAT/OI (%)	26.5%	27.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	2.2	2.0
Interest Coverage (times)	3.8	4.3

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					March 11, 2022	Oct 19, 2020	Sep 30, 2019	Mar 23, 2018
1	Fund based facilities	Short Term	30.00	-	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A1(S)
2	Non fund based facilities	Short Term	0.84	-	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A1(S)
3	Unallocated limits	Short Term	76.16	-	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A2+(CE)	[ICRA]A1(S)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short Term Fund based facilities	Simple
Short Term Non fund based facilities	Very Simple
Short Term Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit	NA	NA	NA	30.00	[ICRA]A2+(CE)
-	Credit Equivalent Limit for Forward Contract	NA	NA	NA	0.84	[ICRA]A2+(CE)
-	Unallocated	NA	NA	NA	76.16	[ICRA]A2+(CE)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: NA

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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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