March 31, 2022 (Revised)

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 USD	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE); reaffirmed
	$380.13 million	380.13 million USD	[ICRA]A1+(CE); reaffirmed
Total	**$ 430.13 million**	**430.13 million USD**	**-**
Commercial Paper	**Rs. 300.00 crore**	**Rs. 300.00 crore**	**[ICRA]A1+; reaffirmed**

Rating Without Explicit Credit Enhancement	[ICRA]A+/[ICRA]A1+

**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)/ [ICRA]A1+(CE) 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., and a demonstrated track record of operational and financial support to CIPL on need basis.

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)/[ICRA]A1+(CE) to the said facility against the Unsupported Rating of [ICRA]A+ and [ICRA]A1+ (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 the future, the same would have a bearing on the rating of the aforesaid facility/instrument as well. Further, though the corporate guarantee specifies that the payment period of 10 New York business days from the date of the bank's written notice in case of unpaid and due guarantee, ICRA takes comfort from Cargill's Inc reputation sensitivity to the default of CIPL and a track record of timely need-based support to the rated entity. 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.

[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.*

Salient covenants of the rated facility

- *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 the 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 its strategic importance for its ultimate holding company, evident from the continued financial support extended by the former in the form of regular equity infusion, external commercial borrowings (ECB) and 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 last 10 years; and in line with the strategy of Cargill Inc., CIPL has invested in the creation of a manufacturing infrastructure in India. The company has also recently acquired an Andhra Pradesh-based refinery which will help it to increase its market share in India in the edible oil segment. Besides, it continues to invest in the inorganic growth prospects in India. ICRA notes that CIPL continues to benefit from the strong operational linkages with its parent through access to its relationships for sourcing raw materials and tradable commodities, extended credit period, benefits from global relationships in food and related industries, access to 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 oil business owing to stiff competition, coupled with the volatility in input prices and foreign exchanges rates and high operating expenses. The exposure of CIPL's trading business to the 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 value-added 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 its strategic importance in the Indian market.

Key rating drivers and their description

Credit strengths

Regular financial support from parent company – As a subsidiary of Cargill Inc., the company benefits from 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 the other favourable factors.

Strategic importance in Cargill Inc.'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 evident from CIPL's high procurements, with almost 23% of its raw material requirement in FY2021 (26% in FY2020) from Group companies.

Improving product diversification and backward integration – CIPL currently undertakes refining, packaging and sales of edible oil as well as trading of agricultural commodities. The company is one of the leading player in the edible oil segment with a market share of about ~3-4% in the domestic market. 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 specialty fats (used in ice-creams and baby food) and specialty ingredients (used in culinary and pharmaceutical industries). Moreover, the company is planning to make inroads into chocolates under its brand 'Nature Fresh Professional'. The revenue streams from such value-added products would bring in stability to the earnings and cash flows, while improving the profitability over the long term.

Credit challenges

Low profitability and relatively weak debt servicing indicators –CIPL's operating profitability margins (between 0.5% and 2.2%) have been range-bound in the last six years, primarily because of limited pricing power in the edible oil business (which accounted for nearly 72% of the company's revenues in FY2021) owing to stiff competition, volatility in input prices and foreign exchanges rates, and high operating expenses. Adverse market dynamics have also led to a decline in operating margin by 60 bps to 1.5% in FY2021. This has resulted in relatively weak debt coverage ratios with interest cover of 1.8 times and TD/OPBDITA of 15.5 times as on March 31, 2021. However, the risk to the overall credit profile is mitigated by regular finance support from the parent company. Going forward, revenue is expected to grow by ~8-10% and margins from segments like agricultural supply chain, sweet and starches are expected to improve. Nonetheless, the overall low profit margins, working capital requirements and borrowings thereof will keep CIPL's coverage indicators under check over the medium term. Also, a significant jump in edible oil prices in the recent past amid supply disruptions in sunflower oil due to the ongoing Russia-Ukraine conflict is expected to keep working capital requirements at elevated levels, while margins may remain under pressure given CIPL's high exposure (~28% of sales in FY2021) to sunflower oil.

Highly competitive refined oil segment – CIPL derives a major part its revenues from the refined edible oil segment. Although most of the company's edible oil business is generated through retail channels (72%) and marketed through various brands with a 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. The trading business is exposed to the risk of changes in government policies, especially for agricultural commodities such as cotton, edible oil 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 (US $3.4 billion as on May 31, 2021), $4.3 billion of committed syndicated credit facilities in the US $1.6 billion of availability under two 364 days revolvers due in March and April 2022 and roughly committed credit facilities of $0.04 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 the availability of regular and need-based financial support from the parent as well as undrawn working capital limits from banks and commercial paper worth ~USD 296 million under an umbrella facility and Rs. 100 crore of CP as on January 31, 2022. Also, the liquidity is supported by dividend income from the subsidiary company (expected to be ~USD 10 million p.a).

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 material deterioration in the parent's credit metrics or if there is any de-linkage of CIPL's synergies with the parent entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's methodology for players in the edible oil industry Approach for rating debt instruments backed by third party explicit support ICRA's Methodology for trading companies
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. ICRA also expects Cargill Inc. Group 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. The Cargill Group also has a consistent track record of extending timely financial support to CIPL, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

CIPL, incorporated 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 oil, 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 oil division is its largest revenue driver and is primarily engaged in refining crude edible oil into branded refined oil. 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 foodgrains, 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). Besides, the company has acquired a refinery based in the Nellore district of Andhra Pradesh which is expected to be operational from May 2022. Apart from this, the company has also ventured into the cocoa trading and chocolate manufacturing (on tolling basis) business recently.

Key financial indicators

WGE	FY2020	FY2021
Operating Income (Rs. crore)	8,587.5	10,452.0
PAT (Rs. crore)	6.2	196.2
OPBDIT/OI (%)	2.1%	1.5%
PAT/OI (%)	0.1%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.7
Total Debt/OPBDIT (times)	9.8	15.5
Interest Coverage (times)	1.7	1.8
DSCR (times)	2.0	3.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); Core ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress-investments-loans and advances-liquid investments-cash and bank balance); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year), *Provisional.*

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	Amount Outstanding as on March 31, 2021	Date & Rating	Date & Rating in 2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Mar 31, 2022	Mar 9, 2021	Dec 31, 2019	Nov 2, 2018	Jul 6, 2018
1	Fund based/Non-fund based facilities*	Long-term/ Short-term	50.00 million USD	-	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE)	[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+
2	Fund based/ Non-fund based facilities*	Short-term	380.13 USD million	-	[ICRA]A1+(CE)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial Paper	Short-term	Rs. 300.00 crore	Rs. 0.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non Fund based facilities	Short-term	-	-	-	-	[ICRA]A1+	[ICRA]A1+	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund/ non fund based	Simple
Commercial Papers	Very simple

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 analysing 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/Banker's name	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 million USD	[ICRA]AA+ (CE) (Stable) / [ICRA]A1+(CE)
NA	Fund based/ Non-fund based facilities	NA	NA	NA	380.13 million USD	[ICRA]A1+(CE)
INE745E14843	Commercial paper	24-Dec-21	4.59%	12-Apr-22	100.00 crore INR	[ICRA]A1+
INE745E14850	Commercial Paper	27-Dec-21	4.68%	26-Apr-22	100.00 crore INR	[ICRA]A1+
NA	Commercial Paper*	-	-	-	100.00 crore INR	[ICRA]A1+

**unplaced*

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

Corrigendum

Document dated March 31, 2022 has been corrected with revision as detailed below:

PAT/OI (%) ratio has been added to the 'Key financial indicators' table.

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Preet Ludhwani
+91 79 4027 1542
preet.ludhwani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches