December 29, 2022

Ebro India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund Based – Working Capital Facilities	764.0	640.0	[ICRA]A1; reaffirmed
Total	**764.0**	**640.0**	

Instrument details are provided in Annexure-1.

Rationale

The rating reaffirmation factors in the benefits derived by Ebro India Private Limited (EBRO) from its strong parentage — Ebro Foods S.A. (a leading global player in the rice and pasta industry)— in the form of funding support and operational synergies. The company reported a stable operating income in FY2022 (inched up 0.3% on a YoY basis) with improved profit margins and debt coverage metrics on the back of a considerable reduction in the company's logistics and borrowing costs. Further, EBRO's presence in both the domestic and export markets results in diversification of the revenue stream. As per ICRA's estimates, the company's revenues are expected to improve marginally in FY2023 and the profit margins are expected to remain in line with FY2022. However, ICRA does not foresee any major impact on the company's credit profile and expect stable operations, going forward. Moreover, EBRO benefits for being a part of the Group's global supply chain, with steady offtake of basmati rice from international group companies, which is expected to increase further with the transfer of non-US business of Ebro Tilda Private Limited (around 90% revenue of Group company) into EBRO after getting approval from National Company Law Tribunal (NCLT) on June 8, 2022. However, ICRA notes that the company's domestic sales would decline significantly in FY2023 due to termination of supply agreement by Kohinoor Specialty Foods Limited (KSF) on March 8, 2022. This is likely to result in higher exports with lower domestic sales, driving the company's profit margins in the near term. The rating also derives comfort from the favourable location of EBRO's facility, which allows easy access to the key raw material, paddy.

However, the rating is constrained by the stiff competition in the industry and the inherently high working capital-intensive nature of operations, driven by high inventory levels required to be maintained owing to the seasonal availability (October to December) of basmati paddy. Sizeable inventory levels expose the company to inventory price risk owing to volatility in the prices of both basmati paddy and rice. Further, as exports account for a sizeable portion of the revenues, the company is vulnerable to adverse movements in foreign exchange rates and changes in trade policies of key export destinations. Its operations also remain exposed to agro-climatic risks, which affect the availability, quality and pricing of basmati rice/paddy.

Key rating drivers and their description

Credit strengths

Strong parentage and track record of operational and financial support – EBRO's parent, Ebro Foods S.A., is one of the leading rice and pasta companies in the world. EBRO continues to benefit from its strong parentage. The company was set up by the parent as a part of the global supply chain to source basmati rice from India and establish its footprint in the country's basmati rice and pasta market. In addition to equity infusion in the past, the holding company has extended external commercial borrowing (ECB) to EBRO in FY2021 apart from the corporate guarantees for the working capital facilities availed in India. Moreover, EBRO benefits from being a part of the Group's global supply chain, with a steady offtake of basmati rice from international Group companies, which further increased with the merger of the non-US business of Ebro Tilda Private Limited into EBRO since FY2022. However, ICRA notes that post termination of the supply agreement by Kohinoor Specialty Foods Limited (KSF) for domestic business with EBRO, there is adverse impact on the domestic sales of the company. Nevertheless, the loss is likely to be compensated to an extent from the increased sales to the Group companies.

Improvement in financial performance in FY2022, likely to remain stable in future – EBRO's financial profile improved in FY2022, marked by improved profitability and debt coverage metrics. This was attributable to a considerable reduction in the company's logistics and borrowing costs. Besides, exports rose in 9M FY2023 on the back of an increased offtake from Group companies and EBRO's ability to source paddy, which is compliant with the revised norms. Further, EBRO's revenue stream is diversified, given its presence in both domestic sales and exports, which reduces the concentration to any specific geography.

Favourable location of EBRO's facility – The company's manufacturing facility is suitably located in Haryana, one of the leading basmati rice producing states. This ensures easy access to the key raw material, paddy, which is procured during the harvest season (October-January). Moreover, the state has numerous small-to-medium-sized basmati rice milling facilities, which provide steady availability of semi-processed/milled rice to EBRO for its processing facility.

Credit challenges

High working capital intensity – EBRO's working capital intensity remains high primarily due to high inventory level (given the seasonality in the availability of basmati paddy). Any adverse movement in the price of paddy/basmati rice could affect the company's margins, as witnessed in the past. However, ICRA notes that due to high volatility in paddy price in the past one year, the company is procuring inventory on back-to-back orders to mitigate the high fluctuation in price. As a result, the inventory level has improved to 179 days in FY2022 from 226 days in FY2021. Also, the company procures around 50% raw material as paddy and the remaining 50% as milled rice from local players (based on regular assessment of cost advantage) to keep the inventory level and profit margins at adequate level.

Exposure to changes in trade policies – The company is exposed to changes in the trade policies of key importing countries as well as in India, which can impact export revenues.

Vulnerable to foreign exchange and agro-climatic risks – As exports constitute a significant portion of its turnover i.e. around 70-80%, the company remains exposed to currency fluctuations to the extent of the unhedged exposure. However, it has a hedging mechanism for reducing the impact of fluctuations in foreign exchange rates. Moreover, given its operations in an agri-based industry, EBRO is exposed to agro-climatic risks such as raw material availability and its quality, which have a bearing on basmati rice prices.

Intense competition in the industry – The basmati rice industry is highly fragmented and is marked by the presence of numerous players. This intensifies competition and limits the pricing flexibility of industry participants. However, EBRO benefits to an extent because of a steady offtake from its major clients (including Group companies).

Liquidity Position – Adequate

EBRO's liquidity position is adequate, supported by funding from the parent, no external term loan repayment liability, no major debt-funded capex plans and cushion available in the form of undrawn bank lines (around Rs. 416.4 crore as of November 30, 2022). Extra funds of around Rs. 98.0 crore have been parked in short-term FDs, which are getting liquidated in January 2023. The utilisation of working capital limit remained low at an average of 14% during the past eight months ending November 2022. In line with the past trend, surplus accruals are likely to be deployed for funding the incremental working capital requirements.

Rating sensitivities

Positive factors – The rating could be upgraded if EBRO demonstrates a continued growth in its scale of operations and registers an improvement in its profit margins, leading to healthy debt protection metrics on a sustained basis. Moreover, the rating would be sensitive to a change in the credit profile of its ultimate parent, Ebro Foods S.A.

Negative factors – Sustained pressure on the company's performance, a deterioration in its profit margins, and elongation of the working capital cycle, leading to a deterioration in the liquidity position, could trigger a rating downgrade. Further, the rating may be revised if the credit profile of its ultimate parent, Ebro Foods S.A., changes.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Rice Millers Rating Approach – Implicit support from Parent or Group
Parent/Group Support	The rating factors in the reasonable likelihood of the Ebro Foods S.A. (ultimate parent of Ebro India Private Limited) extending financial support because of strong business and financial linkages along with high reputation sensitivity
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

EBRO is a step-down wholly-owned subsidiary of Spain-based Ebro Foods S.A., involved in the milling and selling of basmati rice. Its milling facility is in Karnal (Haryana) with rice processing capacity of around 1,40,000 MTPA. The company was incorporated in 2013 to support the parent's global supply chain for rice from India.

Key financial indicators

	FY2021	FY2022
Operating Income (Rs. crore)	895.4	898.2
PAT (Rs. crore)	11.8	44.5
OPBDIT/OI	5.1%	6.5%
PAT/OI	1.3%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.0
Total Debt/OPBDIT (times)	11.6	3.2
Interest Coverage (times)	2.3	8.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore)	Date and Rating on	Date & Rating		
						FY2022	FY2021	FY2020
					Dec 29, 2022	Sep 29, 2021	Aug 21, 2020	May 16, 2019
1	Fund-based working capital facilities	Short-term	640.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-based working capital facilities	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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund-based working capital facilities	NA	NA	NA	640.0	[ICRA]A1

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: 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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