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Cargill India Private Limited: Rating reaffirmed for commercial paper; [ICRA]AA+(CE) (Stable) and [ICRA]A1+(CE) ratings withdrawn and simultaneously [ICRA]AA- (Stable) and [ICRA]A1+ rating assigned

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long term/short term facilities- (part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated) *	USD 50.00 million	USD 75.00 million	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+ (CE) withdrawn; [ICRA]AA- (Stable)/[ICRA]A1+ assigned simultaneously
Short term - Umbrella facilities (part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated) *	USD 380.13 million	USD 355.13 million	[ICRA]A1+(CE) withdrawn; [ICRA]A1+ assigned simultaneously
Total	**USD 430.13 million**	**USD 430.13 million**	
Commercial paper	**Rs. 300 crore**	**Rs. 300 crore**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

ICRA has withdrawn its ratings of [ICRA]AA+(CE) (Stable) and [ICRA]A1+(CE) for the bank facilities of Cargill India Private Limited (CIPL)and simultaneously assigned a fresh rating of [ICRA]AA- (Stable) and [ICRA]A1+ for these facilities. Additionally, ICRA has reaffirmed the short-term rating of [ICRA]A1+ assigned to the Rs. 300-crore commercial papers.

The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings[1].

Among the other considerations, the [ICRA]AA+(CE)/[ICRA]A1+(CE) ratings drew comfort from the corporate guarantee, provided by CIPL's parent to the lenders of the rated bank facilities. For assigning the ratings, ICRA had assessed the attributes of the CG issued by Cargill Inc. While the guarantee was irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met all the attributes of a strong guarantee, it did not have a defined invocation timeline. Taking cognisance of the above, ICRA had assigned a rating of [ICRA]AA+(CE)/[ICRA]A1+ (CE) to the CG-backed facilities against the unsupported rating of [ICRA]A+ and in relation to the guarantor's rating of Moody's A2/P-1.

To align itself with the above regulatory guidance, ICRA would no longer be considering the benefit of a guarantee that lacks an invocation mechanism, even as such a support represents a relatively strong expression of commitment on the part of the support provider for the supported facilities in comparison to the support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]AA- (Stable)/[ICRA]A1+ to the above bank facilities of CIPL, while withdrawing the [ICRA]AA+(CE) (Stable)/[ICRA]A1+(CE) ratings.

[1] The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal.

ICRA notes that CIPL and its ultimate parent Cargill Inc. {rated A2 (Stable)/P-1 by Moody's Investor Services} have close business linkages and CIPL is of strategic importance to its parent. Therefore, ICRA expects the Cargill Group to be willing to extend timely financial support to CIPL, as and when needed. The Cargill Group has a consistent track record of extending timely financial support to CIPL in the past. It has invested in setting up the manufacturing infrastructure in India. Besides, it continues to invest in the inorganic growth prospects in India.

CIPL's ratings factor in the above strengths arising from a parent with a relatively strong credit profile, even as the benefit of the CG extended by the ultimate parent has been ignored. CIPL benefits from the strong operational linkages with its parent as well as access to its relationships for sourcing raw materials and tradeable commodities, Its association with Cargill also gives it the benefits of extended credit period, global relationships in food and related industries, access to knowledge related to commodity flows and the alignment of risk management practices with the parent.

Moreover, CIPL's long-term rating notes the significant increase in the scale of operations to Rs. 14,538.4 crore in FY2022 from Rs. 10,452.0 crore in FY2021, backed by revenue pick-up across all the business segments. The growth is likely to continue in the medium term with the addition of the Nellore-based edible oil facility along with the capacity addition plans across the segments.

The above strengths are partially offset by the relatively low profitability of the entity because of limited pricing power in the edible oil business and agro commodity trading and processing owing to stiff competition, coupled with the volatility in input prices and foreign exchanges rates. The exposure of CIPL's trading business to the changes in Government policies for agricultural commodities also poses a risk. The ratings also factor in the modest debt protection at the standalone level, resulting from thin margins and relatively high borrowings to fund the working capital requirements.

The Stable outlook on the long-term rating reflects ICRA's opinion that CIPL will continue to benefit from the established market presence along with 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

Strategic importance in Cargill Inc.'s portfolio –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. The operational synergies are evident from CIPL's high procurements from Group companies.

Regular financial support from parent company – Cargill Inc and CIPL have close business linkages and CIPL is of strategic importance to its parent. Therefore, ICRA expects Cargill Inc to be willing to extend timely financial support to CIPL, as and when needed. The parent has shown a consistent track record of extending timely financial support to CIPL in the past. The promoter group invested Rs. 1,604.17 crore in CIPL during the last decade (FY2013 to FY2022) by way of equity infusion, in addition to providing unsecured loans (~Rs. 999.6 crore outstanding as on March 31, 2022). CIPL's ratings factor in the above strengths arising from a parent with a relatively strong credit profile, even as the benefit of the CG extended by the parent has been ignored. Support from the parent is expected to continue as India is among the strategic and critical growth markets for the Cargill Group.

Healthy revenue growth and improving product diversification – CIPL's revenues increased to Rs. 14,538.4 crore in FY2022 from Rs. 10,452.0 crore in FY2021, backed by revenue pick-up across all the business segments. The growth is likely to continue in the medium term with the addition of the Nellore-based edible oil facility along with capacity addition plans across the segments.

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 ~3-4% in the domestic market with around 7.6%

market share in the sunflower oil. 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 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 modest debt servicing indicators – CIPL's operating profitability margins remains thin (between 0.5% and 2.2%) and have been range-bound in the last six years, primarily because of limited pricing power in the edible oil business (which accounted for majority of the company's revenues in FY2022) and the agro commodity trading business owing to stiff competition, volatility in input prices and foreign exchanges rates. The OPM marginally declined to ~1.4% in FY2022 from 1.5% in FY2021. However, at the absolute level, the OPBDITA grew by ~33% owing to higher scale. The cash accruals were further supported by a dividend income of Rs. 112 crore in FY2022. Nonetheless, the overall low profit margins, working capital requirements and borrowings thereof will keep CIPL's coverage indicators under check over the medium term.

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 (71% in FY2022) 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: Adequate

CIPL's liquidity is adequate, supported by the availability of regular and need-based financial support from the parent (in the form of equity infusion and short-term debt funding) as well as undrawn working capital limits from banks worth ~USD 307 million under an umbrella facility and Rs. 100 crore of CP as on September 30, 2022. Also, the liquidity is supported by dividend income from the subsidiary company (expected to be ~USD 10-15 million p.a.).

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company demonstrates a sustained improvement in the profitability and debt protection metrics, while maintaining a sustained volume growth. Further, the rating could be upgraded if the credit profile of CIPL's parent, Cargil Inc, strengthens.

Negative factors – Pressure on the ratings could arise if there is a considerable decline in sales volumes, or reduction in profits and cash flow generation. Weakening of the liquidity profile, led by a sustained deterioration of the working capital cycle, will weigh on the ratings. Further, any deterioration in the credit profile of the parent or weakening of linkages with the parent may cause a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's methodology for players in the edible oil industry ICRA's Methodology for trading companies Policy on Withdrawal of Credit Ratings Rating Approach- Implicit support from parent or group
Parent/Group support	Parent/Group Company: Cargill Inc. The ratings assigned to CIPL factors in the high likelihood of its parent, Cargill Inc. [rated Moody's A2/P-1], extending financial support to it because of the close business linkages between them. ICRA also expects 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 track record of Cargill Inc having extended corporate guarantees to CIPL's lenders for its facilities.
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 – (i) edible oil, (ii) trading in agriculture commodities such as foodgrains, feed grains and oilseeds, (iii) animal nutrition and (iv) trade and structured finance. 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.

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 in the current fiscal. Apart from this, the company has ventured into cocoa trading and chocolate manufacturing (on tolling basis) recently.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	10,452.0	14,538.4
PAT	196.2	99.1
OPBDIT/OI	1.5%	1.4%
PAT/OI	1.9%	0.7%
Total outside liabilities/Tangible net worth (times)	2.7	2.7
Total debt/OPBDIT (times)	15.5	11.6
Interest coverage (times)	1.8	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023) Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 2022 (Rs. crore)	Date & rating in FY2023 Jan 06, 2023	Chronology of rating history for the past 3 years: Date & rating in FY2022 Mar 31, 2022	Date & rating in FY2021 Mar 09, 2021	Date & rating in FY2020 Dec 31, 2019
1	**Fund based/non-fund based facilities***	Long term/ Short term	75.00 million USD	-	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE) withdrawn and [ICRA]AA- (Stable)/[ICRA]A1 + assigned simultaneously	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE)	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE)	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE)
2	**Fund based/ non-fund based facilities***	Short term	355.13 million USD	-	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously	[ICRA]A1+(CE)	[ICRA]A1+	[ICRA]A1+
3	**Commercial paper**	Short term	Rs. 300.00 crore	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Non-fund based facilities**	Short term	-	-	-	-	-	[ICRA]A1+

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/short-term – Fund-based/non-fund based facilities	Simple
Short-term – Fund based/non-fund based facilities	Simple
Short-term – Commercial paper	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated	Current Rating and Outlook
NA	**Fund based/non-fund based facilities**	-	-	-	75.00 million USD	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+(CE) withdrawn and [ICRA]AA- (Stable)/ [ICRA]A1+ assigned simultaneously
NA	**Fund based/non-fund based facilities**	-	-	-	355.13 million USD	[ICRA]A1+(CE) withdrawn and [ICRA]A1+ assigned simultaneously
INE745E14934	**Commercial paper**	23-Dec-22	7.75%	21-Apr-23	Rs. 50.0 crore	[ICRA]A1+
NA	**Commercial paper***	-	-	-	Rs. 250.0 crore	[ICRA]A1+

*Source: Company; *unplaced*

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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