November 03, 2023

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	640.0	640.0	[ICRA]A1; reaffirmed
Total	**640.0**	**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, as it is a part of Ebro Foods S.A. (a leading global player in the rice sector with a strong position worldwide in premium and fresh pasta), in the form of funding support and operational synergies. The company reported growth in its operating income in FY2023 [inched up 9.1% on a year-on-year (YoY) basis] with improved profit margins on the back of higher export sales and higher realisations of rice by-products. Further, EBRO's presence in both the domestic and export markets results in a diversified revenue stream. As per ICRA's estimates, the company's revenues are expected to improve further in FY2024 along with stable profit margins. EBRO will continue to benefit from being a part of the Group's global supply chain, with higher offtake of basmati rice from international group companies, especially after the transfer of the non-US business of Ebro Tilda Private Limited (generating around 90% revenue for the Group company) into EBRO. However, ICRA notes that the company's domestic sales declined significantly since FY2023 due to the termination of supply agreement by Kohinoor Specialty Foods Limited (KSF). Nevertheless, higher export volumes have compensated the lower domestic sales, which resulted in an improved profit margin for the company. The rating also derives comfort from the favourable location of EBRO's facility, which allows easy access to the key raw material, i.e. paddy. ICRA notes that the overall impact of the Indian Government's restrictions related to rice exports on the company's business have been limited, as a major portion of the basmati rice orders of EBRO is above the minimum export price (MEP) and sold to the Group companies.

The rating is, however, 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, changes in trade policies of key export destinations and the Government's regulations such as export policy can impact the industry dynamics. 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 guarantee for the working capital facilities availed in India. The company has also started receiving advances from the parent company against orders in the last two years, which has improved EBRO's liquidity position. 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 since FY2022 with the transfer of the non-US business of Ebro Tilda Private Limited into EBRO. However, ICRA notes that following the termination of the supply agreement by Kohinoor Specialty Foods Limited (KSF) for domestic business with EBRO, there has been a decline in its domestic sales volume. Nevertheless, the loss is compensated to a large extent from the increased export sales to the Group companies resulting in a limited impact on the company's overall business profile.

Improved financial performance and liquidity, likely to remain stable in future – EBRO's financial profile improved in FY2023, marked by increased turnover along with an improvement in profitability and liquidity. This was attributed to higher export realisations, increased by-product (husk, bran, etc.) prices and the Indian Government's export incentives (which have increased due to higher exports since FY2023). Besides, exports have increased since FY2023 on the back of an increased offtake from the Group companies and EBRO's ability to source paddy, which is compliant with the norms of importing countries. Further, ICRA notes that exports to Group companies have further increased in 6M FY2024 with profit margins similar to that of the previous year. Moreover, EBRO's liquidity position improved significantly due to large free balances maintained by the company, which is attributed to advances against orders from the parent Group. 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. ICRA notes that the company has recently launched, Vermicelli and Macaroni, from July 2023, which are produced from the existing pasta facility, although the revenue size of pasta and allied products is likely to remain small during the initial years. Nevertheless, the company has been able to register a steady increase in pasta sales due to higher demand amid high competition.

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 prices in the past one year, the company is procuring inventory on back-to-back orders to mitigate the high fluctuation in prices. Further, it has also increased rice-to-rice processing since paddy-to-rice processing requires higher paddy inventory. However, the inventory level continues to remain high (262 days at year-end in FY2023). Nevertheless, the company has started receiving advances from the parent company against orders over the last two years, which has provided necessary comfort to EBRO's working capital requirements.

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. The government regulations pertaining to the rice industry, such as export and import policies, can impact the industry dynamics.

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 a large extent because of a steady offtake from its Group companies and major clients.

Liquidity Position – Strong

EBRO's liquidity position has improved since FY2022 supported by large free balances maintained by the company, which is attributed to advances against orders from the parent Group. The company had free balances of Rs. 213.2 crore as on March 31, 2023, which majorly included advances from the parent company on orders. Additionally, the company's fund flow from operations is expected to remain healthy at around Rs. 40.00 crore in FY2024. The utilisation of working capital limit remained moderate at an average of 57.5% during the past 10 months ending September 2023. In line with the past trend, surplus accruals are likely to be deployed for funding the incremental working capital requirements. Moreover, with no external term loan repayments, no major debt-funded capex plans and cushion available in the form of undrawn bank lines (around Rs. 488.0 crore as of September 30, 2023), the company's liquidity is likely to remain strong in the near term.

Rating sensitivities

Positive factors – The rating could be upgraded if EBRO demonstrates 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 any 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 an 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
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), which is processing milled rice of around 1,25,000 MTPA. The company was incorporated in 2013 to support the parent's global supply chain for rice from India. Additionally, the company also has a processing facility for pasta and allied products, which was commissioned in December 2018.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	898.2	980.2
PAT	44.5	50.5
OPBDIT/OI	6.5%	8.5%
PAT/OI	5.0%	5.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.9
Total debt/OPBDIT (times)	3.2	6.2
Interest coverage (times)	8.8	3.8

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date and Rating on	Date & Rating		
						FY2023	FY2022	FY2021
					Nov 03, 2023	Dec 29, 2022	Sep 29, 2021	Aug 21, 2020
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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Sandeep Aggarwal
+91 124 4545377
sandeep.aggarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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