December 31, 2019 Revised

Cargill India Private Limited: Rating 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	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+; re-affirmed
	$330.00 million	$330.13 million	[ICRA]A1+; re-affirmed
Fund based/ Non-fund-based facilities***	$50.00 million	$50.00 million	[ICRA]A1+; re-affirmed
Short-term Non-fund based**	Rs. 1,060.00 crore	Rs. 1,060.00 crore	[ICRA]A1+; re-affirmed
Commercial Paper	Rs. 300.00 crore	Rs. 300.00 crore	[ICRA]A1+; re-affirmed
Rating Without Explicit Credit Enhancement			**[ICRA]A+**

**Instrument details are provided in Annexure-1; **100% cash backed facility; ***The company has corporate guarantee from Cargill Incorporated, USA for these facilities; ^Rated as a Fund-based facility previously*

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) 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 majority of the rated fund-based/ non-fund based facilities. The Stable outlook on this rating reflects the strong credit profile of the guarantor, Cargill Inc.

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) to the said facility against the Unsupported Rating of [ICRA]A+ (and in relation to the guarantor's credit profile). In case the rating of the guarantor or the Unsupported Rating of CIPL was to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility/instrument as well. 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

[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.*

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.

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

- *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 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' strong linkages with the ultimate holding company and its strategic importance, evidenced by the continued financial support extended by the former with regular equity infusion, external commercial borrowings (ECB), as well as corporate guarantees for banking facilities. The rating favourably factors in the strategic importance of the Indian market for the parent that has infused over Rs. 1,600 crore of equity in the past seven years. In line with the strategy of Cargill Inc., CIPL has invested in the creation of manufacturing infrastructure in India. Apart from this, the company had invested towards acquisition of Sweekar and Leonard brands and continues to do so for its refined oil division, which is the largest revenue driver in India (~70% of revenues in FY2019). ICRA notes that CIPL continues to benefit from the strong operational linkages with its parent through access to its relationships for sourcing raw material and tradable commodities, extended credit period, benefits from global relationships in food and related industries, access to the knowledge related to commodity flows and alignment of risk management practices with the parent.

The rating is constrained by relatively low profitability because of limited pricing power in the edible oils business owing to stiff competition, coupled with volatility in input prices and foreign exchanges rates and high operating expenses. Exposure of CIPL's trading business to 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 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 the strategic importance of the Indian market.

Key rating drivers

Credit strengths

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

Strategic importance of the company in the 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 evidenced from CIPL's high procurments, almost 26% of its raw material requirement in FY2019, from its group companies.

Improving product diversification besides backward integration – CIPL currently undertakes refining, packaging and sales of edible oils as well as trading of agricultural commodities. 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 speciality fats (used in ice-creams and baby food) as well as speciality ingredients (used in culinary and pharmaceutical industries). The revenue streams from such value-added products would aid in bringing stability to earnings and cash flows, while improving profitability over the long-term.

Credit challenges

Relatively low profitability and debt servicing indicators – Ranging between 0.5-2.2%, CIPL's operating profitability margins have been relatively low over the past five years primarily because of limited pricing power in the edible oils business (which accounted for nearly 70% of company's revenues in FY2019) owing to stiff competition, volatility in input prices and foreign exchanges rates and high operating expenses. In FY2019, the company's EBITDA contracted to Rs. 51.9 crore from Rs. 151.6 crore in FY2018 due to increase in recharges payable to its parent company pertaining to legal and communication expenses, coupled with higher raw material prices. The debt coverage ratios remain weak with interest cover of 0.4 time and TD/OPBDITA of 24.4 times as on March 31, 2019. However, risk to overall credit profile is mitigated by regular finance support from the parent company.

Highly competitive refined oil segment – CIPL derives over two-thirds of its revenues from the refined edible oils segment. Although most of the company's edible oil business is generated through retail channels (78%) and marketed through various brands with 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.

Trading business exposed to risk of changes in Government policies – Trading in agricultural commodities remains exposed to changes in Government policies, especially for commodities such as cotton, edible oils 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 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 ($5.5 billion as of February 28, 2019)[2], $5.0 billion of committed syndicated credit facilities in the US, $1 billion of committed credit facilities focused on non-US markets and cash flow from operations ($3.3 billion for the four quarters ended February 28, 2019). 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 availability of regular and need-based financial support from the parent as well as availability of undrawn working capital limits from banks and commercial paper to the tune of ~Rs. 2,437.5 crore as on September 30, 2019. The company does not have any long-term debt repayments till the end of FY2021.

Rating sensitivities

For the [ICRA]AA+(CE) (Stable) rating

Positive triggers: An upward movement in Cargill Inc.'s rating will be considered favourably for CIPL's rating.

Negative triggers: A negative rating action could be triggered if there is any change in the parent's ability to support the company, or if a material deterioration in the parent's credit metrics impacts its rating or any misalignment of CIPL's synergies with the parent entity.

For the [ICRA]A+(Stable)/[ICRA]A1+ ratings

Positive triggers: Given the weak financial profile of CIPL, the company's rating is supported by strong financial support from its parent company, Cargill Inc. Accordingly, its rating is aligned to the credit profile of Cargill Inc. Any upward movement in Cargill Inc.'s rating will be considered favourably for CIPL's rating, besides improvement in its own credit profile.

Negative triggers: A negative rating action could be triggered if there is any change in the parent's ability to support the company, or in case of a material deterioration in the parent's credit metrics impacting its rating, or any misalignment of CIPL's synergies with the parent entity.

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[2] *Source: Moody's Credit Opinion dated July 31, 2019*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Solvent Extraction (Edible Oil) Industry Rating Methodology for Trading Companies Approach for rating debt instruments backed by third-party explicit support
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. We also expect 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 consistent track record of Cargill Inc. having extended timely financial support to CIPL, whenever a need has arisen.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

CIPL, set up 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 oils, grain and oilseeds, sugar, cotton and animal feed. The company also has a trade and structured finance division, which provides trade support to the customers.

The company's operations are handled under four broad divisions. The edible oils division is its largest revenue driver in India and is primarily engaged in refining crude edible oil into branded refined oils. 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 food grains, feed grains and oilseeds, animal nutrition business 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).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7,032.9	7,606.9
PAT (Rs. crore)	-288.9	-158.5
OPBDIT/OI (%)	2.2%	0.7%
RoCE (%)	-10.1%	-1.2%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	4.9
Total Debt/OPBDIT (times)	7.0	24.4
Interest Coverage (times)	1.7	0.4
DSCR	2.8	0.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as on Sep 30, 2019	Rating	FY2019		FY2018	FY2017
					31-Dec-19	2-Nov-18	6-Jul-18	4-Dec-17	7-Oct-16
1	Fund based/Non-fund based Facilities*	Long Term/ Short Term	USD 50.00 million^		[ICRA]AA+(CE) (Stable)/ [ICRA]A1+	[ICRA]AA+ (S) (Stable)/ [ICRA]A1+(S)	[ICRA] AA+ (S) (Stable)/ [ICRA] A1+	[ICRA]AA+(SO) (Stable)/ [ICRA]A1+	[ICRA]AA+(SO) (Stable)/ [ICRA]A1+
		Short Term	USD 330.13 million		[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1+
2	Fund based/ Non-fund based facilities	Short Term	USD 50.00 million		[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Fund based facilities	Short Term	Rs. 1,060.00 crore		[ICRA]A1+	[ICRA]A1+	-	-	-
4	Commercial Paper	Short Term	Rs. 300.00 crore		[ICRA]A1+	[ICRA]A1+	[ICRA] A1+	[ICRA]A1+	[ICRA]A1+

**Part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated; ^Rated as a Fund-based facility previously*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	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	USD 50.00 million^	[ICRA]AA+(CE) (Stable)/ [ICRA]A1+
NA	Fund Based/ Non-Fund Based Facilities*	NA	NA	NA	USD 330.13 million	[ICRA]A1+
NA	Fund Based/ Non-Fund Based Facilities	NA	NA	NA	USD 50.00 million	[ICRA]A1+
NA	Non-Fund based facilities	NA	NA	NA	Rs. 1,060.00 crore	[ICRA]A1+
NA	Commercial Paper	NA	NA	NA	Rs. 300.00 crore	[ICRA]A1+

*Source: CIPL; *Part of the regional umbrella facilities for Asia Pacific subsidiaries of Cargill Incorporated; ^Rated as a Fund-based facility previously*

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

Corrigendum:

Document dated December 31, 2019 has been corrected with revisions as detailed below:

Revisions on page number 2 under “Rationale for the [ICRA]A+(Stable)/[ICRA]A1+ ratings”: In the second paragraph, “The rating is constrained by weak and volatile profitability” has been replaced with “The rating is constrained by relatively low profitability” and “sharp fluctuation in input prices” has been replaced with “volatility in input prices”.

Revisions on page number 3 under “Credit Challenges”: In the first paragraph, “Weak profitability and debt servicing indicators” has been replaced with “Relatively low profitability and debt servicing indicators”, “CIPL’s operating profitability margins have been weak and volatile” has been replaced with “CIPL’s operating profitability margins have been relatively low”, “sharp fluctuation in input prices” has been replaced with “volatility in input prices” and “the company’s EBITDA declined sharply” has been replaced with “the company’s EBITDA contracted”.

Revisions on page number 4 under “Liquidity position for the [ICRA]A+(Stable)/[ICRA]A1+ ratings: Adequate”: The line “This is despite negative fund flow from operations in FY2019 and poor debt coverage indicators, primarily backed by explicit support from the parent in the form of corporate guarantee.” has been removed.

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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.

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