

November 04, 2024

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-I

Rationale

The rating reaffirmation factors in the steady operational performance of Ebro India Private Limited (EBRO), aided by benefits derived on account of its strong parentage, as EBRO 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). Over the years, the parent entity supported EBRO's business operations in the form of funding support and healthy procurement (thereby aiding in healthy capacity utilisation and steady profitability). The company reported a healthy growth in its operating income in FY2024 [inched up 20.5% on a year-on-year (YoY) basis], led by a material increase in export realisations. An increase in realisations led to a reduction in the company's operating profit margins as the company enjoys a fixed margin per quantity sale to its Group entities. Nonetheless, the company's absolute profits remained healthy. 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 likely to fall by 7-10% in the current fiscal (in line with the likely moderation in realisations) while maintaining stable operating margins. EBRO will continue to benefit for 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) to EBRO. The rating also derives comfort from the favourable location of EBRO's facility, which allows easy access to paddy, the key raw material.

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. ICRA notes that the company's dependence on working capital debt has remained limited on account of availability of healthy advances from its group entities. Sizeable inventory levels expose the company to inventory price risk owing to volatility in the prices of both basmati paddy and rice. 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. Notwithstanding these risks, ICRA expects healthy orders from the company's Group entities to help it record steady operational profits and continue to maintain a healthy financial risk profile, going forward.

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, although the sustenance of the same remains to be seen. Moreover, EBRO benefits from being a part of the Group's global supply chain with a steady offtake of basmati rice by international Group companies, which further increased since FY2022 with the transfer of the non-US business of Ebro Tilda Private Limited to EBRO.

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 paddy, the key raw material, 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 launched Vermicelli and Macaroni in 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 intense competition.

Credit challenges

High working capital intensity; exposed to intense competition in the industry – EBRO's working capital intensity remains high primarily due to the 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 few years, 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 as paddy-to-rice processing requires higher paddy inventory. However, the inventory level continues to remain high (217 days in end-FY2024). 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.

The basmati rice industry is also 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 a large extent because of a steady offtake from its Group companies and major clients.

Exposure to changes in trade policies and Government regulations – 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 – Exports constitute 70-80% to the company's turnover, and thus EBRO 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 agro-based industry, EBRO is exposed to agro-climatic risks such as raw material availability and their quality, which have a bearing on basmati rice prices.

Liquidity position: Strong

EBRO's liquidity position remains strong, amid expectation of steady fund flow from operations (expected to be in the range of Rs. 35-40 crore/annum) and cash and bank balances of ~Rs. 47 crore as on September 30, 2024, apart from the cushion of more than Rs. 500 crore in fund-based limits against the drawing power. The company's liquidity over the past few years has remained supported by access to healthy advances against orders from the parent Group. 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 and no major debt-funded capex plans, 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 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 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 resulting in 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., weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rice Mills
Parent/Group support	The rating factors in the high likelihood of 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 has a capacity to process 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 has a processing facility for pasta and allied products, which was commissioned in December 2018.

Key financial indicators (audited)

EBRO	FY2023	FY2024*
Operating income	980.2	1180.9
PAT	50.5	41.2
OPBDIT/OI	8.5%	6.2%
PAT/OI	5.1%	3.5%
Total outside liabilities/Tangible net worth (times)	1.9	1.6
Total debt/OPBDIT (times)	6.2	3.4
Interest coverage (times)	3.8	2.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			November 04, 2024	Nov 03, 2023	Dec 29, 2022	Sep 29, 2021	
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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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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