

Imcola (Exports) Limited

March 23, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based limits	30.00	30.00	[ICRA]A1(S); Reaffirmed
Non fund based limits	35.00	35.00	[ICRA]A1(S); Reaffirmed
Unallocated	49.78	42.00	[ICRA]A1(S); Reaffirmed
Total	114.78	107.00	

Rating action

ICRA has reaffirmed the short term rating of [ICRA]A1(S) (pronounced ICRA A one S) to the Rs. 30.00 crore fund based facilities, Rs. 35.00 crore non-fund based facilities and Rs. 42.00 crore unallocated limits of Imcola (Exports) Limited (“IEL”/“the company”). The letter S in the parenthesis suffixed to a rating symbol denotes that the rating is supported by a Letter of Comfort (LoC)¹

Rationale

The rating takes into consideration the LoC extended by IMC Ltd. (IMC) for the bank facilities of IEL. IMC holds 100% stake in the company, and is an established player in the liquid terminalling and storage business. As per the LoC, IMC unconditionally and irrevocably undertakes to provide financial support to IEL for enabling the company to meet its financial obligations towards discharging debt. The rating favourably considers IMC’s long track record in the business of tank farms, its established position in bulk liquid storage tank terminals industry with presence across all major ports in India and favourable outlook for bulk liquid storage. The rating also takes comfort from the robust financial profile of IMC characterised by healthy profit margins, strong debt protection metrics and significant cash and liquid investments. The standalone credit profile of IEL derives comfort from its operational track record in the bulk trading of molasses, spanning nearly three decades in the industry; the favourable long term international demand outlook for molasses; and the considerable experience of the group’s promoters in the industry. The rating also takes into account IEL’s financial risk profile characterised by low gearing and adequate debt protection metrics.

The rating is however constrained by IEL’s moderate scale of operations; and its very high customer concentration with only three clients accounting for the entirety of the company’s sales. Although the company enjoys a healthy relationship with its clients and has not faced any receivable issues in the past, the order flow tends to be lumpy, which amid the inherent seasonality in the business has resulted in volatile cash flows and margins depending on the timing of sales. The rating also takes note of the significant capex plans proposed at IMC Group level in the next few years and continued support provided to certain loss-making group entities. ICRA also takes note of the large performance guarantee submitted by IMC Ltd towards the Solapur City Gas Distribution (CGD) project. This has exposed the Group to project risks given the capital intensity of the CGD project; adherence to project’s timelines will remain a key rating sensitivity and will be monitored.

¹ To denote ratings assigned to entities based on Letter of Comfort from a third-party, ICRA has started using the (S) suffix in place of (SO) suffix. The change in suffix is not to be construed as a change in credit rating. Please refer to ICRA’s website for more details.

Outlook: Stable

ICRA believes IEL's credit profile will remain healthy supported by the LoC extended by its parent, IMC. The outlook may be revised to 'Positive' if there is significant improvement in IMC's financial profile aided by growth in revenues, margins and improvement in performance of loss making subsidiaries. The outlook may be revised to 'Negative' if IMC's financial profile weakens due to lower cash accruals on account of significant drop in revenues and margins, continued underperformance of certain group entities coupled with higher than budgeted capex leading to additional consolidated debt intake and support outflow from IMC.

Key rating drivers

Credit strengths

Strong parentage and explicit support from IMC Ltd. – IMC Ltd has extended LoC for all the bank facilities of IEL. IMC Ltd is a leading player in domestic bulk liquid storage tank terminals industry with an established track record of more than five decades. The Group currently owns close to 360 storage tanks spread over 14 ports with a combined capacity of over 1.1 million kilolitres (kL). The Group also operates liquid terminals in Ennore port and Visakhapatnam port.

Healthy financial risk profile of IEL and IMC Group – IEL's liquidity position continues to be comfortable with nil utilisation of fund based facilities during FY2017 and H1FY2018 and cash balances of Rs.19.8 crore as on September 30, 2017. The debt protection and coverage indicators also remain adequate. The working capital intensity also further reduced to 6.1% during FY2017 from 27.2% during FY2016.

Financial risk profile of IMC is characterised by healthy revenue growth, strong profit margins, adequate debt protection and coverage metrics. Although some subsidiaries are generating losses and continue to receive support from the Group, the healthy cash accruals from standalone entity and from subsidiary – Ennore Tank Terminals Private Limited (ETTPL) led to significant cash and liquid investments of ~Rs. 360 crore as on March 31, 2017 at the Group level.

Credit challenges

Volatile revenues and margins – Demand for molasses is highly seasonal. The availability of molasses for exports is also dependent on the competitive demand from Indian Liquor industry and prices offered in export markets. This results in volatile nature of revenues and margins for IEL. During FY2017 and H1FY2018, IEL's revenues witnessed significant decline on account of subdued demand for molasses in international markets and also availability concerns due to higher demand for molasses from Indian Liquor Industry.

High Customer concentration of IEL- IEL has very high customer concentration with three customers accounting for the entirety of the sales. However the company enjoys long standing relationship with these clients and has not faced any receivable issues.

Significant proposed capex at Group level – IMC has significant capex plans spread over the next five years. Despite this resulting in higher debt levels at consolidated level, the liquidity position of the Group is expected to remain strong given the healthy cash accruals and significant cash balances at Group level.

Performance Guarantee for Solapur CGD project – IMC has submitted performance guarantee of Rs. 615.96 crore to Petroleum Natural Gas Regulatory Board (PNGRB) towards City Gas Distribution project in Solapur being undertaken by the Group. The total project cost is estimated at around Rs. 331 crore spread over five years. The project currently is in its nascent stage. Adherence to the project timelines is a key rating sensitivity and will be monitored.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

About the company:

Imcola (Exports) Ltd. IEL was established in 1992, as a 100% subsidiary of IMC, and commenced operations by taking over the molasses export business of the IMC group. IEL enjoys stable business from the long term business relationships with its clientele and has a good network of suppliers. IEL also occasionally undertakes import trading of furnace oil depending upon client requirements. IEL has a dedicated International Trading Department (ITD) of marketing and research personnel, which assesses availability and market conditions for molasses trading. The company holds a current Good Manufacturing Practices (cGMP) certificate from PDV and The Netherlands Feed Board, which allows IEL to export to Netherlands, France, UK, Germany and Belgium.

The IMC Group came into existence in 1935 with incorporation of IMC Limited primarily to import and export molasses. By 1950, it diversified into operating third party bulk liquid storage tanks at various ports handling raw materials and intermediates for Petroleum-Oil- Lubricants (POL), chemicals, petro-chemicals and vegetable oil industries. The Group currently owns and operates close to 360 storage tanks spread over 14 ports with a combined capacity of over 1.1 million kL. The Group's other interests include operating liquid cargo berths in Ennore and Visakhapatnam ports and trading of molasses, petrol and petroleum products through its subsidiaries. During FY2017, IMC Group on a consolidated basis registered a net profit of Rs. 143.1 crore on an operating income of Rs. 1416.5 crore.

During H1FY2018, on provisional basis, IEL reported a net profit of Rs. 1.0 crore on an operating income of Rs. 18.5 crore.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	113.8	85.6
PAT (Rs. crore)	5.0	2.6
OPBDIT/ OI (%)	7.4%	3.3%
RoCE (%)	22.8%	12.5%
Total Debt/ TNW (times)	0.44	0.00
Total Debt/ OPBDIT (times)	1.43	0.00
Interest coverage (times)	7.50	7.10
NWC/ OI (%)	27.2%	6.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2015	Date & Rating in FY2014	
				Mar 2018	Mar 2017	Mar 2015	Jan 2014	
1 Fund based facilities	Short Term	30.00	-	[ICRA]A1 (S)	[ICRA]A1 (S)	[ICRA]A1 (SO)	[ICRA]A2+(SO)	
2 Non Fund based facilities	Short Term	35.00	-	[ICRA]A1 (S)	[ICRA]A1 (S)	[ICRA]A1 (SO)	[ICRA]A2+(SO)	
3 Unallocated	Short Term	42.00	-	[ICRA]A1 (S)	[ICRA]A1 (S)	-	-	

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PC/PCFC/FBP/FUBD	NA	NA	NA	30.00	[ICRA]A1(S)
NA	Foreign LC	NA	NA	NA	35.00	[ICRA]A1(S)
NA	Unallocated	NA	NA	NA	42.00	[ICRA]A1(S)

Source: Imcola (Exports) Limited

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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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