Cargill India Private Limited Revised

November 02, 2018

Summary of rated instruments

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)	USD 50 million	USD 50 million	[ICRA]AA+(S) (Stable) reaffirmed/ [ICRA]A1+(S) re-assigned from [ICRA]A1+
	USD 258 million	USD 330 million	[ICRA]A1+; re-affirmed
Fund based/ Non-fund-based facilities	USD 50 million & Rs. 70 crore	USD 50 million	[ICRA]A1+; re-affirmed
Short-term Non-fund based	-	Rs. 1060** crore	[ICRA]A1+; re-affirmed
Commercial Paper	Rs. 300 crore	Rs. 300 crore	[ICRA]A1+; re-affirmed

** Instrument details are provided in Annexure-1. **100% cash backed facility*

Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ for bank facilities and Commercial Paper Programme of Cargill India Private Limited. The long-term rating of [ICRA]AA+(S) for the USD 50 million facility is also reaffirmed and the short-term rating for the same limit was re-assigned from [ICRA]A1+ to [ICRA]A1+(S), to reflect that the rated facility is backed by a guarantee from Cargill Incorporated, USA and that these short-term facilities are interchangeable with the long-term facilities, for the said amount. The outlook on the long-term rating is Stable.

The letter 'S' in parenthesis suffixed to the rating symbol denotes that the rating is supported by a third-party guarantee, but one that is without an invocation and payment mechanism to enable timely debt servicing. An 'S' rating does not represent ICRA's opinion on the general credit quality of the entity concerned.

Rationale

The ratings draw comfort from CIPL's strong linkages with its parent, Cargill Incorporated (Cargill Inc., rated A2/Stable/P1 by Moody's Investor Services) and the continued financial support in the form of equity infusion, external commercial borrowings (ECB), as well as corporate guarantees[1] for banking facilities. The ratings continue to favourably factor in the strategic importance of the Indian market for the parent that has invested over Rs. 1,400 crore in the past five years. In line with the strategy of Cargill Inc., CIPL has invested in the creation of manufacturing infrastructure for its Food Ingredient and Bio Industrial (FIBI) business vertical in India. Apart from this, the company invested towards the acquisition of Sweekar and Leonard brands in the past and continues to do so for its refined oil division, which is its largest revenue contributor in India. ICRA notes that CIPL continues to benefit from the strong operational linkages with its parent through the access to information. It also benefits from the parent's relationships for sourcing raw material and tradable commodities, extended credit period, benefits from global relationships in food and related industries, as well as access to knowledge of commodity flows and alignment of risk management practices with the parent.

[1] *In the event of the Guarantor revoking the guarantee for the third-party guaranteed facility, the captioned rating will not apply in respect of any incremental exposure taken by the bank on the borrower, after the revocation notice is sent by the guarantor. In that event, the rating on the facility will have to be reviewed.*

Outlook: Stable

The Stable outlook reflects ICRA's belief that CIPL would continue to benefit from the operational and financial support from its parent, given the strategic importance of the Indian market. The outlook may be revised to Positive if the parent company's financial risk profile improves and results in a rating upgrade. The outlook may be revised to Negative if there is any change in the parent's ability to support the company, any deterioration in the parent's credit rating or any misalignment of synergies with the parent entity.

Key rating drivers

Credit strengths

Strong parentage as subsidiary of Cargill Incorporated - Being a subsidiary of Cargill Inc., the company benefits through the former's extensive global 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.

Conservative capital structure - The company received equity infusion of over Rs. 1,400 crore over the five-year period from FY2013 to FY2018, which was deployed towards capex, brand acquisitions and loss funding requirements. Further, a significant portion of the long-term debt on the books of the company accounts for external commercial borrowings (ECBs) from fellow subsidiary. However, the debt coverage metrics remained weak as on March 31, 2018, TD/OPBITDA stood at 7.0 times (PY: 28.0 times) and NCA/TD at 13.0% (PY: -3.0%).

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 Cargill Inc.

Improving product diversification besides backward integration - CIPL currently undertakes refining, packaging and selling 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

Earnings and cash flow volatility due to commodity markets, cycles and foreign exchange fluctuations – With majority of the company's business being derived from the trading of agricultural commodities and the opportunistic nature of the trading business, the earnings and the cash flows remain exposed to the volatility of commodity markets and cycles, as well as to foreign exchange fluctuations.

Weak profitability indicators – In four out of the past five fiscals, CIPL had reported losses. However, periodic equity infusions and external commercial borrowings from the parent have supported the financial risk profile of the company.

Highly competitive refined oil segment – CIPL derives a major portion of its sales revenues (74% in FY2018) from the refined oil segment, which exposes it to high competitiveness in the segment. However, the risk is mitigated by CIPL's focus on the premium segment with higher entry barriers.

Trading business exposed to risk of changes in Government policies – Agricultural commodity trading remains exposed to changes in Government policies, especially for commodities such as cotton, oil, and sugar, among others. Though ICRA notes that the trading of these commodities is opportunistic in nature.

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

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Trading Companies
Impact of Parent or Group Support on an Issuer's Credit Rating

About the company:

CIPL, setup in 1987, is a step-down subsidiary of Cargill Incorporated. It has businesses in refined oils, food ingredients, flour milling, grain and oilseeds, cotton, animal feed and trade structured finance. The company's business is structured around four broad verticals—Cargill Foods India, Grains and Oilseeds, Animal Feed, and Trade and Structured Finance. Each of the business lines is aligned with the parent. CIPL has also pursued inorganic growth opportunities in India, particularly in the branded segment of the refined oils business. Cargill India markets leading consumer brands of edible oils such as 'NatureFresh', 'Gemini', 'Sweekar', 'Leonardo Olive Oil', 'Rath' and 'Sunflower' brands of hydrogenated fats in India. Cargill also markets the 'NatureFresh' brand of packaged wheat flour. The company acquired the 'Sweekar' brand from Marico in 2011 as part of its strategy to focus on the branded refined oils sector. Further, the company acquired 'Sunflower Vanaspati' in 2012 and the 'Leonardo' brand of olive oils in 2014.

The company currently has two refineries, one each at Kandla (Gujarat) and Kurkumbh (Maharashtra), along with 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

CIPL	FY2017	FY2018
Operating Income (Rs. crore)	7324.2	7032.9
PAT (Rs. crore)	-115.1	-288.9
OPBDIT/ OI (%)	0.5%	2.2%
RoCE (%)	-4.6%	-10.1%
Total Debt/ TNW (times)	0.7	1.2
Total Debt/ OPBDIT (times)	28.0	7.0
Interest Coverage (times)	0.9	3.4
NWC/ OI (%)	12.6%	14.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount O/S (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Nov 2018	Jul 2018	December 2017	October 2016	December 2015
1	Fund Based/Non-Fund Based Facilities**	Long term/ Short term	USD 50 million	-	[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+	[ICRA]AA+ (SO) (Stable)/ [ICRA]A1+
		Short term	USD 330 million	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund based/ Non-fund based facilities	Short term	USD 50 million	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Fund based	Short term	Rs. 1060 crore	-	[ICRA]A1+				
4	Commercial Paper	Short term	Rs. 300 crore	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

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	Fund Based/Non-Fund Based Facilities	-	-	-	USD 50 million	[ICRA]AA+ (S) (Stable)/ [ICRA]A1+(S)
NA	Fund Based/Non-Fund Based Facilities	-	-	-	USD 330 million	[ICRA]A1+
NA	Fund Based/Non-Fund Based Facilities	-	-	-	USD 50 million	[ICRA]A1+
NA	Non-Fund Based Facilities	-	-		Rs. 1060 crore	[ICRA]A1+
NA	Commercial paper	-	-	7-365 days	Rs. 300 crore	[ICRA]A1+

Source: CIPL

Corrigendum:

Document dated November 02, 2018 has been corrected with revisions as detailed below:

Revisions on page number 1 under “Summary of rated instruments”, on page number 4 under “Rating history for last three years” and on page number 5 under “Annexure-1: Instrument Details”: The rated amount for the “Short term fund based/ non-fund based umbrella facility” was mentioned as USD 380 million. The same has been corrected to USD 330 million at all the above-mentioned sections.

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About ICRA Limited:

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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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