Adani Wilmar Limited

August 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	15,711.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial paper (Carved out) *	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities and commercial paper of Adani Wilmar Limited (AWL) takes into consideration the established market position of AWL in domestic edible oil market with leadership position of 'Fortune' brand in edible oil segment.

The steep decline in edible oil prices and moderate demand from the frying and baking industry led to stagnant sales of edible oil in absolute terms on a consolidated basis during FY23 (refers to the period April 1 to Marh 31) and Q1FY24.

Correspondingly, PBILDT/Ton of edible oil and consequent PBILDT margins also moderated during FY23 and further declined during Q1FY24, mainly owing to finished goods inventory piled up emanating from reduced inventory levels by stockist due to price volatility. Nevertheless, risk management practices of AWL led to relatively better operating performance of AWL's edible oil segment as compared to some of other peers. Going forward, the PBILDT margins are expected to be normalised backed by volume growth in edible oil and substantial consummation of high-cost inventories. The ratings also factor in the steady growth in sales of industry essential segment as well as food and fast-moving consumer goods (FMCG) segment led by volume growth. The ratings continue to factor in the expansion in its distribution network, strong capital base, comfortable capital structure and strong liquidity position of AWL despite working capital intensive nature of operations.

The ratings are ably supported by the strong parentage of AWL, it being a part of the Singapore-based Wilmar group, which is one of the leading agribusiness groups in Asia having linkages with Archer Daniels Midland (ADM- one of the World's largest agro-commodity players) and the Adani Group. The ratings are also supported by AWL's operational synergies with the Wilmar group's businesses and a defined risk management policy being followed by the company for hedging its foreign exchange and commodity risk, as well as AWL's strategically located port base as well as inland edible oil manufacturing and storage facilities providing logistical advantages.

The above rating strengths are, however, tempered by moderate profitability and debt protection indicators on account of volatility in edible oil prices, working capital intensive operations owing large product range, and exposure to agro-climatic risks in procurement of raw materials. The ratings are also moderated due to AWL's susceptibility to foreign exchange rates, regulatory risk associated with duty structure, presence in the competitive edible oil industry, and the inherent project risk associated with the upcoming capex related to food segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant expansion in PBILDT/ MT while generating envisaged returns from industry essential segment as well as food & FMCG products segment and managing working capital requirements.
- Improvement in interest coverage and total debt to PBILDT while maintaining volume growth on a sustained basis.

Negative factors

- Deterioration in the total outside liabilities (TOL)/tangible net worth (TNW) to greater than 2.50x on a sustained basis.
- Non-adherence to prudent risk management practices to manage commodity price and foreign exchange fluctuation risk.
- Significant deterioration in debt coverage indictors.

Analytical approach

Consolidated. The analytical approach has been changed from 'Standalone' during last review to 'Consolidated' on account of material increase in operations of subsidiaries and step-down subsidiaries. The list of entities which have been consolidated is placed in **Annexure-6**

Outlook: Stable

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The stable outlook assigned to the bank facilities of AWL continues to derive strength from strong market position of the company in the edible oil segment and diversified product portfolio. Furthermore, expected stabilisation in edible oil prices will improve the performance of AWL, going forward.

Detailed description of the key rating drivers

Key strengths

Moderate growth in scale of operations and range-bound profitability during FY23 albeit with modest performance during Q1FY24

AWL's total operating income (TOI) has registered a y-o-y growth of 7% on consolidated basis in FY23 to ₹58,185 crore as compared with ₹54,155 crore during FY22. AWL's total sales volume increased by 14% in FY23 as compared with 7% during FY22. While the volume growth in edible oil was low at 3% due to relatively lower demand from frying, institutional and bakery segment, branded sales grew by 8% y-o-y in volume terms during FY23.

Despite volatile edible oil prices, the operating margins of AWL remained range bound due to prudent risk management practices followed by AWL.

The PBILDT margins moderated marginally by 35 bps and remained at 2.86% during FY23 as compared to operating margin of 3.21% during FY22, mainly on account of significant decline in the edible oil prices during FY23 leading to high-cost inventory due to lower stock by stockist. This also led to moderation in PBILDT per tonne of edible oil during FY23. The decline in operating profitability coupled with higher interest cost led to lower profit after tax (PAT) of ₹582 crore during FY23 as against PAT of ₹804 crore during FY22. Furthermore, during the year, wholly owned step-down subsidiary in Bangladesh reported net loss of ₹63 crore due to price caps by Government on edible oils, local currency-related issues, and unavailability of counter party for forex hedging leading to lower PAT on consolidated basis as compared to standalone.

Furthermore, as per the published Q1 FY24 consolidated results of AWL, it reported 25% y-o-y total volume growth, reflecting strong consumer demand; however, the sales value declined by 12% on y-o-y basis, which is reflective of the steep decline in edible oil prices with moderated PBILDT margins of 1.01%. AWL reported 27% y-o-y volume growth in the edible oil segment followed by Food & FMCG and Industrial Essential segments at 21%. AWL reported net loss of ₹79 crore during the quarter as against PAT of ₹194 crore during Q1 FY23 and PAT of ₹94 crore during Q4 FY23. Going forward, PBILDT margins are expected to be normalised backed by volume growth in edible oil and substantial consummation of high-cost inventories.

As indicated by the management, the performance of edible oil is expected to improve going forward owing to price stabilisation of edible oil. CARE Ratings will continue to monitor the improvement in the performance of AWL during FY24 as envisaged.

Market leader in edible oil segment along with diversified product portfolio

AWL continues to enjoy leadership position with single-largest market share in the domestic edible oil industry. AWL is a market leader in soyabean oil, mustard oil and rice bran oil, and ranks amongst top three players in palm oil and sunflower oil. The company has also established a wide network of distributors and stock points apart from more than 18 lakh retail outlets which provide cost competency for selling Food & FMCG products under the same distribution channel. Furthermore, AWL has distribution network which includes more than 10,000+ distributors, and presence across 100% Urban towns and 13,600+ rural towns. It also services customers online through Fortune Mart (33 outlets) and Fortune Online (25 cities). It has over 50+ manufacturing plants, and an extensive distribution network in China, Indonesia and some 50 other countries and regions.

The product portfolio of AWL consists of a wide range of products, including edible oils, non-edible oil, de-oiled cake (DOC), vanaspati, specialty fats, Food & FMCG products such as Wheat Besan Atta Rice, oleo chemicals, etc. During FY23, edible oil contributed to around 79% of the company's total sales, while non-edible oil, vanaspati and by-products like oleo-chemicals contributed majorly to the remaining portion. Amongst edible oils, soyabean oil continues to be the major driver of revenue followed by palm oil, mustard oil and sunflower oil. Diversified sales mix within the edible oil segment has shielded AWL against global uncertainties like the Russia-Ukraine issue, interest rate hikes, etc., as compared to its peers.

Strong parentage and operational synergies with Wilmar group's businesses

AWL derives strength from the parentage of both Wilmar International Limited (WIL) and Adani Enterprises Limited (AEL; rated 'CARE A+; Negative/CARE A1+'). The Singapore-based Wilmar group is one of the leading vertically integrated agri-business groups in Asia with business interests, including palm plantations, edible oil crushing and refining facilities, manufacturing of sugar, specialty fats, oleo-chemicals, fertilisers as well as grain processing and storage facilities. The parentage of AEL provides the company with the technical/managerial resources owing to AEL's vast experience in trading and logistics business across the country. Archer Daniels Midland Co. (ADM), a Fortune 100 company, which is one of the world's largest agricultural processors of soya beans, corn, wheat, and cocoa; holds about 25% in Wilmar International Ltd (WIL), further strengthening the parentage. The business of AWL has strong operational synergies with that of the Wilmar group, which provides it with global linkages for its procurements, mainly crude palm oil, as well as marketing and distribution linkages for its edible oil products. WIL has also supported the operations of AWL through extension of unsecured line of credit. In addition to all the above, AWL enjoys the receipt of quality real-time price information and future estimates from WIL, which has operations both in the producing regions as well as consuming regions.

Strategically located port-based and inland manufacturing and storage facilities providing logistical advantages
AWL's manufacturing facilities are located at the major procurement centres of its raw materials, i.e., seeds and crude edible oil, translating into lower logistics costs for procurement of materials and centralised storage facilities for crude as well as processed oil and other products. The port-based facilities of the company are engaged in refining of imported crude edible oil, mainly from Indonesia, Malaysia, Argentina, Brazil, Ukraine, and Russia which are major exporters of crude edible oil, such as palm, soya and sunflower; while the inland facilities manufacture various refined oils & process the food & FMCG products and are located around the respective cultivation/procurement region.

Well-defined risk governance structure
AWL has a defined system for hedging of its commodity price exposure as well as foreign exchange risk wherein risk tolerance limit and stop-loss limits are set for various commodities across different hierarchy in the company and policy has been defined for hedging of foreign exchange exposure. This has largely enabled the company to maintain its PBILDT per tonne amidst volatile forex and commodity markets. The risk limits are defined as per the minimum hedge ratio as decided by the risk committee.

Growth witnessed in food and FMCG segment and industry essentials segment during FY23 and Q1FY24
There has been steady growth in scale of operations of essential products due to expansion of Oleochemical segment. AWL manufactures oleo-chemical products like glycerine, soap, soap noodles, etc., from the by-products of AWL. The sales in essential products increased from ₹6,192 crore during FY22 to ₹8,028 crore during FY23. With the fall in the prices of edible oil, the prices of industry essential segment also moderated, reporting Earnings before Interest and Taxes (EBIT) of ₹323 crore during FY23 as against ₹390 crore during FY22. During Q1 FY24, the segment registered sales of ₹1,986 crore and y-o-y volume growth of 21%.
In the food and FMCG segment, the scale increased from ₹2,621 crore during FY22 to ₹4,053 crore during FY23 registering y-o-y growth of 55%. With economies of scale, the performance of Food and FMCG segment has increased with EBIT of ₹96 crore as against EBIT loss of ₹29 crore during FY22. During Q1FY24, the food and FMCG segment registered sales of ₹1,097 crore and y-o-y volume growth of 21%.
Going forward, growth in the scale of operations of industry essentials segment and food and FMCG segment leading to diversified operations and lower dependence on edible oil shall remain crucial from the credit perspective.

Stable outlook for edible oil market
India is the largest importer of edible oil in the world. The demand for edible oil is anticipated to continue its growth trajectory of 5-6% in the medium term. The demand from edible oil was moderately impacted during FY22 and FY23 due to the impact of COVID-19 on HoReCa segment. Furthermore, the expected stabilisation in edible oil prices will improve the performance of AWL, going forward.

Augmented capital base and comfortable capital structure
AWL has completed its IPO aggregating to ₹3,600 crore during February 2022. Raising equity has augmented AWL's net worth base to ₹7,981 crore as on March 31, 2023, compared with ₹7,539 crore as on March 31, 2022, on a consolidated basis. Augmentation of net worth along with prepayment of its large portion of the term debt has led to significant improvement in leverage marked by TOL/TNW of 1.39x as on March 31, 2023 as against TOL/TNW of 1.53x as on March 31, 2022.

Key weaknesses

Moderate debt protection indicators
The debt of AWL consists of working capital borrowings, i.e., largely LC backed creditors as the company had prepaid entire term debt from Initial Public Offer (IPO) proceeds. In line with decline in the prices of edible oil, the total debt of the company (including acceptances) reduced from ₹8,162 crore as on March 31, 2022, to ₹7,547 crore as on March 31, 2023 on a consolidated basis. However, owing to moderation in profitability, debt protection indicators stood moderate marked by total debt/PBILDT of 4.54x during FY23. Interest coverage moderated to 2.15x during FY23 due to higher interest cost owing to increase in benchmark interest rates especially in foreign currency debt. Going forward, with no major debt-funded capex and consummation of high cost finished goods inventory, debt coverage indicators of AWL are expected to improve to an extent.

Project risk associated with planned capex related to food segment to be incurred from IPO proceeds
AWL is currently undertaking the planned capex of ₹2,200 crore which was phased out to FY23-FY25 to expand capacity in refining, crushing and food & FMCG products to further diversify its revenue stream. The same is being funded through IPO proceeds & internal accruals. Going forward any large debt funded capex shall remain rating monitorable. During FY23, AWL spent ₹320 crore against its planned capex, out of which ₹143 crore was towards the edible oil segment and balance towards food and FMCG segment. However, AWL is exposed to the inherent post-implementation risk mainly in food & FMCG products segment considering competition from large players. Going forward, CARE Ratings will continue to monitor AWL's ability to generate the envisaged benefits from the completed projects, mainly in food & FMCG products and the oleo-chemical segment.

Exposure to volatility in crude edible oil prices, forex rates and regulatory changes; albeit defined risk management policies followed by the company to mitigate the same
Exports ban on palm oil and its derivatives by Indonesia, lower production of beans in South America, Russia-Ukraine war and global supply chain issues had led to surge in edible oil prices by 200% for last two years ended May 2022. Nevertheless, easing supply situation in sunflower and palm oil globally and lifting of ban on palm exports by Indonesia led to a decline in edible oil prices from July 2022, a trend that sustained till the end of Q1 of FY24. The sharp decline in the edible oil prices led to some inventory loss in AWL's hands (largely in Q4FY23 and Q1FY24), impacting profitability during Q1FY24. Volatility in prices along with dependence on imports and global agro-climatic conditions exposes AWL on various industry-specific risks.
Additionally, as AWL imports around 80% of its raw material requirements, it is also exposed to the volatility in foreign exchange rate, mainly United States Dollars (USD). However, a well-defined risk governance structure along with the regular review of the processes mitigates the risk to an extent.

Liquidity: Strong

The liquidity position of the company has strengthened further post raising of funds through IPO. AWL had free cash and bank balance of ₹2,437 crore as on March 31, 2023, mainly because of unutilised IPO proceeds, which are expected to be used in capex over the next years.
The average collection period of AWL remained stable at 13 days during FY23. The average inventory holding period remained range bound at 51 days during FY23: albeit with increase in finished goods inventory. For its imports, AWL avails letter of credit leading to lean operating cycle. This results in higher requirement of non-fund-based limits, the utilisation of acceptances remained a major source of debt financing for AWL during FY23 with outstanding (net) acceptances constituting majority of total debt as on March 31, 2023. Furthermore, the limits remained optimally utilized during the 12 months ended April 2023. The liquidity position is expected to be aided in FY24 backed by substantial consummation of high cost of inventories during Q1FY24.

Environment, social, and governance (ESG) risks:

Risk factors	Compliance and action done by the company.
Environmental	AWL has invested in green manufacturing processes, moderating the potentially negative impact on the environment. AWL has drawn inspiration from Wilmar's No Deforestation, No Peat, No Exploitation (NDPE) Policy and other sustainability-related commitments. AWL made a strong commitment to tackle the issue of plastic waste by implementing an extensive Extended Producer Responsibility (EPR) initiative across India. This initiative focuses on the collection and energy recovery of multilayer and plastic packaging waste in collaboration with PROs (Producer Responsibility Organizations). AWL is determined to achieve plastic neutrality by 2023-24.
Social	Favourable labour conditions and initiative to address malnutrition and anaemia.
Governance	The Board of Directors of the AWL is duly constituted with proper balance of the Executive Directors and the Non-executive Directors as well as Independent Directors. AWL has a dedicated investor grievance redressal mechanism.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and the Industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Edible Oil

Incorporated in January 1999, AWL is an equal joint venture between the Gujarat-based Adani Group and the Singapore-based Wilmar Group. As on March 31, 2023, the company had an installed capacity of 16,935 TPD of crude oil refining and 7,925 TPD of crushing with a combination of port-based and inland manufacturing facilities at more than 60+ locations across India.

Brief financials- Consolidated (₹ crore)	31-03-2022 (A)	31-03-2023 (A)	Q1FY24 (UA)
Total operating income	54,155	58,185	12,928
PBILDT	1,737	1,664	130
PAT	804	582	(79)
Overall gearing (times)	1.08	0.95	NA
Interest coverage (times)	3.21	2.15	NA

A: Audited; NA: Not Available; Note: 'the above results are latest financial results available'
Note: Net debt is considered after excluding outstanding letter of credit acceptances /buyer's credit facilities to the extent of earmarked fixed deposit receipts for arriving at overall gearing.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Please refer Annexure-3

Complexity level of various instruments rated: Please refer Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out) (Not Placed)		NA	NA	NA	500.00	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	1150.00	CARE AA-; Stable / CARE A1+
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	5538.00	CARE AA-; Stable / CARE A1+
LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	9023.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (26-Jul-22)	1)CARE A+; Stable (02-Aug-21) 2)CARE A+; Stable (07-Jul-21)	1)CARE A; Positive (07-Sep-20)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	1150.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)	1)CARE A; Positive / CARE A1 (07-Sep-20)
3	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	5538.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable	1)CARE A; Positive / CARE A1 (07-Sep-20)

							/ CARE A1+ (07-Jul-21)	
4	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	9023.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (26-Jul-22)	1)CARE A+; Stable / CARE A1+ (02-Aug-21) 2)CARE A+; Stable / CARE A1+ (07-Jul-21)	1)CARE A; Positive / CARE A1 (07-Sep-20)
5	Commercial Paper-Commercial Paper (Carved out)	ST	500.00	CARE A1+	-	1)CARE A1+ (26-Jul-22)	1)CARE A1+ (02-Aug-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of subsidiaries/joint ventures/associates of AWL getting consolidated as on March 31, 2023

Sr. No.	Name of Company/ Firm	Relationship	Shareholding as on March 31, 2023
1.	Golden Valley Agrotech Private Limited	Subsidiary	100%
2.	AWL Edible Oils and Foods Private Limited	Subsidiary	100%
3.	Adani Wilmar Pte Ltd (AWPTE)	Subsidiary	100%
4.	Leverian Holdings Pte Ltd (LHPL)	Step-down subsidiary	100% by AWPTE
5.	Bangladesh Edible Oil Limited (BEOL)	Step-down subsidiary	100% by LHPL
6.	Shun Shing Edible Oil Ltd (SSEOL)	Step-down subsidiary	100% by BEOL
7.	K.T.V. Health Food Private Limited (KTVHF)	Joint venture	50%
8.	KTV Edible Oils Private Limited	Joint venture	100% by KTVHF
9.	Vishakha Polyfab Private Limited	Joint venture	50%
10.	AWN Agro Private Limited	Joint venture	50%

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact Us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: 022-68374474 E-mail: rajashree.murkute@careedge.in Maulesh Desai Director **CARE Ratings Limited** Phone: 07940265605 E-mail: maulesh.desai@careedge.in Palak Sahil Vyas Associate Director **CARE Ratings Limited** Phone: 079-40265620 E-mail: palak.gandhi@careedge.in

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