Emmsons International Limited

RATING HISTORY

	Amount in Rs. million	Rating Outstanding	Previous Ratings
		May 2010	March 2009
Term Loans (earlier – Rs. 858.0 million)	784.0	LBBB (Stable)	LBBB
Fund Based Limits (earlier – Rs. 1900 million)	2449.0	LBBB (Stable)	LBBB
Non-Fund Based Limits (earlier – Rs. 1100 million)	2600.0	A3+	A3+

ICRA has reaffirmed the long term rating assigned to Rs. 784.0 million term loan (earlier Rs. 858.0 million) and Rs. 2449.0 million fund based limits (earlier Rs. 1900 million) of Emmsons International Limited (EIL/ 'the company')† at LBBB (pronounced as L triple B). The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating assigned to Rs. 2600.0 million non fund based limits (earlier Rs. 1100 million) of the company† at A3+ (pronounced as A three plus).

The rating reaffirmation takes into account EIL's experienced management, its long track record in the trading business, its wide distribution network and diversified product mix. The ratings are however constrained by the competitive nature of the industry, EIL's low profitability (Profit after Tax/Operating Income of 0.90% in FY2009) and moderate debt protection indicators as reflected by Net Cash Accruals/Total debt of 5% in FY 2009. While assigning rating ICRA has also taken note of proposed debt funded investment in Joint Ventures which is expected to increase the gearing of the company.

EIL is involved in trading of various commodities and its commodity basket keeps on changing according to the opportunities available in the market. The major commodities traded by EIL are Rice, Sugar, Coal, Soybean and Maize etc. Export of rice had remained the major contributor to the revenue of EIL in past few years, however the proportion of rice sales has declined in FY10 amid the ban on export of non basmati rice since February 2008 coupled with decline in flow of orders under World Food Programme (WFP) of United Nations Organization (UNO) and Government to Government (G2G) trade transactions which are exempt from the blanket ban on export of non basmati rice.

Some of the commodities being traded by the company are quite volatile in nature with respect to pricing & production and being agro commodities are also highly regulated. As a result company is exposed to not only price risk but also to regulatory risk. EIL manages the commodity price risk by reducing the time lag between order booking and purchase of commodities. By reducing the time lag the uncertainty of price movements is reduced to a great extent, though it cannot be ruled out completely.

Being involved in export and import of commodities, it is also exposed to the risk of adverse movements in foreign exchange rate. The netting out of exports and imports coupled with company's policy of doing selective hedging helps in combating the risk. However, the exposure being not fully covered (or over covered) the risk of adverse movements in foreign exchange rate cannot be ruled out completely.

EIL has entered into a JV with Amber Farms, a Singapore based company with the object of corporate farming in Ukraine. With substantial interest in agriculture, it is a step to acquire control over the source of agriculture produce. The JV partners have recently commissioned an agro processing plant for value addition in agro commodities.

Looking at the opportunities in the coal trading business, EIL has entered into a JV with ETA STAR International LLC, Dubai (Emirates Trading Agencies (ETA) Star Group). The JV has acquired beneficial interest in two coal concessions in east Kalimantan and the development work of mines is expected to be completed in current financial year.

The operating income of the company has grown at a significant pace during last few years from Rs. 1.46 billion in FY2006 to Rs. 7.42 billion in FY2009. Its net margins have remained at around 1.7% during FY2007 and FY2008; however it declined to 0.9% in FY2009 because of low demand in H2 FY2009 and foreign exchange losses.

Working capital intensity of the company is moderate at 23% as on

† *For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.*

March 31, 2009 mainly due to high inventory days in FY2009. The gearing of the company has increased from 1.4 times as on March 31, 2008 to 2.4 times as on March 31, 2009 on account of higher working capital borrowings to fund the high inventory stock. Further the company is in the process of tying up a debt for approximately Rs. 780 million for its Indonesia project which is expected to increase its gearing further.

Company Profile

Emmsons International Ltd. (EIL) was incorporated in the year 1993, prior to which it was operating as a partnership firm involved in trading of Sulphur and Rock Phosphate. Currently EIL is a three-star trading house engaged in export and import of commodities. The major commodities traded by the company are Rice, Sugar, Coal, Cotton and Maize etc.

For the year ended FY2009, the company posted a profit after tax of Rs. 66.7 million on a turnover of Rs. 7419.8 million.

May 2010

KEY FINANCIALS (CONSOLIDATED)

		2008-09	2007-08	2006-07
Operating Income (OI)	*Rs Million*	7419.8	5837.0	3756.6
Operating Profit before depreciation, interest. Tax and amortization (OPBDITA)	*Rs Million*	244.2	246.6	145.3
Profit After Tax (PAT)	*Rs Million*	66.7	95.5	63.6
Net Cash Accruals (NCA)	*Rs Million*	66.1	86.9	57.6
Total Debt	*Rs Million*	1312.5	727.5	711.9
Tangible Net worth	*Rs Million*	548.4	510.3	199.8
OPBDITA/OI	*%*	3.3%	4.2%	3.9%
PAT/OI	*%*	0.9%	1.6%	1.7%
Profit before Interest and Tax/Average (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work In Progress)	*%*	16.3%	28.0%	20.2%
Total Gearing	*times*	2.4	1.4	3.6
OPBDITA/Interest & Finance Charges	*times*	1.7	2.4	2.0
NCA/Total Debt	*%*	5.0%	11.9%	8.1%
Total Debt/OPBDITA	*times*	5.4	2.9	4.9
Debtor + Inventory days	*days*	90	59	139
Creditor days	*days*	43	14	71

Note: Amounts in Rs. Millions

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