Ghodawat Consumer Products LLP

April 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	53.20 (Enhanced from 52.93)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	8.73 (Reduced from 9.00)	CARE BB+; Stable / CARE A4 (Double B Plus; Outlook: Stable/ A Four)	Reaffirmed
Total Bank Facilities	**61.93 (Rs. Sixty-One Crore and Ninety-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation of the bank facilities of Ghodawat Group (Ghodawat Consumer Products LLP and Ghodawat Foods International Private Limited; collectively referred to as Ghodawat Group) continues to factor losses in FY20 (FY refers to the period April 01 to March 31), depletion in net worth on account of accumulated losses, leveraged capital structure albeit improving and presence in fragmented and competitive nature of industry.

The ratings derive strength from the long track record and experience of the promoters in the diverse business of over fifteen years, diversified revenue stream hence reducing revenue concentration risk, improved scale of operation and gross cash accruals on successful completion of capex.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Improvement in capital structure with overall gearing of 1.00x
- Increase in scale of operations marked by total operating income of more than Rs.1200 crore along with improvement in PBILDT margin of more than 8% on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in operational efficiency in turn leading to thinning of operating margins below 5.50%.

Detailed description of the key rating drivers

Key Rating Weakness

Losses in FY20 coupled with thin operating profitability margins: Ghodawat group has booked losses in FY20 of Rs.21.92 crore on account of increased depreciation due to fixed asset addition and interest cost. Further, at combined level the group has low operating profitability margin of 5.59% in FY 20 though improved from 4.88% in FY 19. Ghodawat Consumer Products LLP **(**GCPL) is marketing and distribution arm of Ghodawat Food International Private Limited (GFIPL) along with other businesses, on account of which selling, and distribution cost is higher in GCPL resulting into thin margins.

Depletion in net worth coupled with leveraged capital structure albeit improving:

On account of accumulated losses over the years, the net worth of GCL and GFIPL has shrunk to Rs.36.34 crore as on March 31, 2020 as against Rs.76.65 crore as on March 31, 2019. Due to this capital structure is weakened on account of addition of term debt, unsecured loan from promoter for capex coupled with lower net worth base on account of accumulated losses. Overall gearing of the company has deteriorated to 9.12x as on March 31, 2020 compared to 3.57x as on March 31, 2019. But the group has converted unsecured loan from promoter to equity in November 2021 which has led to improvement in the overall gearing to 2.28x.

Presence in a fragmented market with limited entry barriers and limited value addition:

The group is engaged into agri-commodity related industry which is mainly volume business with thin margins and is characterized by low entry barriers. Further, GCPL is engaged in manufacturing and distribution of drinking water, rice, edible oil, snacks foods, salt, packaging and distribution of carbonated fruit drinks which needs low value addition and is not technology intensive and as a consequence the industry is highly fragmented with large number of players operating in the unorganized segment.

Key Rating Strengths

Strong and experienced promoters along with established track record of Ghodawat Group*:* Mr. Sanjay Ghodawat pioneer of Sanjay Ghodawat Group entered into business operations in the year 1993 through Ghodawat Industries (I) Private Limited and currently operating under varied business segments including wind power, high-tech agriculture, chemicals, flexible packaging, edible oils, real estates, textile division, education and FMCG through ~13 business entities. Mr. Ghodawat is having over 26 years of industry experience and within a short span of time he forayed into varied business segments. In the year 2007, Mr. Shrenik Ghodawat (Son of Mr Sanjay Ghodawat) joined the group and he is having more than a decade of industry experience.

Established brand name of the group, diversified business operations leading to reduction of product concentration risk:

The group has a well-established brand 'Star' in Maharashtra. The products of the firm are sold under the same, like Star Water, Star Salt and Star rice. The Group incorporated GCPL for the purpose of manufacturing of drinking Water. However, over the years firm expanded its operations into manufacturing and distribution of rice, wheat flour, black cumin, edible oil, snacks foods, salt, jaggery and carbonated fruit drinks considering the business opportunities across sectors. Additionally, group carries contract manufacturing for ITC & Sanjeev Goenka Group for their brand "BINGO" and "TOO YUMM" respectively.

Improved scale of operation and gross cash accruals on successful completion of capex*:*

During FY20, the company witnessed significant increase in scale of operation (growth of 39%), income level increased to Rs.800.81 crore as against Rs.578.56 crore in FY19. The growth is driven by the sale of products predominantly Oil, De-oiled cake, Jaggery powder, Khandsari Sugar and Fruit juice. Increase in income level is also contributed by addition of production lines for jaggery, beverages, edible oil and namkeen divisions. Continuous additions and diversification of product lines over the years has resulted in improved gross cash accruals to Rs.18.59 crore in FY20 from Rs7.06 crore in FY19. Further during 9MFY20, Ghodawat Group achieved a total operating income of Rs.708.54 crore with PBILDT of Rs.43.35 crore as impact of lockdown, imposed to curtail spread of COVID-19, on the business was negligible since consumable food was considered under essential services.

Liquidity analysis: Stretched

Liquidity is marked by tightly matched accruals when compared to repayment obligations, 80% utilized bank limits and modest cash balance of Rs.4.42 Crore as on March 31, 2020. The operations are working capital intensive due to the seasonality of the raw materials with availability of paddy. Average inventory holding period is in the range of 60-65 days, it provides credit to its customers of 10-15 days and makes payment to its suppliers within 10-15 days, thus maintaining the operating cycle in the range of 60-65 days. Company has not availed moratorium but has availed RBI COVID relief package loan of Rs.3.94 Crore.

Analytical approach: Combined. CARE has considered combined performance of two group entities GCPL and GFIPL due to significant ownership and control by common promoter family deriving operational synergies, same line of business and, financial linkages in terms of sales and purchases and marketing activities.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings

Financial Ratios- Non-Financial Sector

CARE's Policy on Default Recognition

Rating Methodology: Consolidation and Factoring Linkages in ratings

Financial Ratios – Non-financial Sector

CARE's methodology for Manufacturing companies

Liquidity Analysis of Non-financial sector entities

About the Firm

Ghodawat Consumer Products LLP was formed in December 2013 for the purpose of manufacturing of drinking Water. Over the years firm expanded its operations into manufacturing and distribution of rice, wheat flour, black cumin, edible oil, snacks foods, salt, jaggery and carbonated fruit drinks considering the business opportunities across sectors. GFIPL incorporated in 2003, is engaged into the business of manufacturing of edible Oil by solvent extraction and refining processes. It has manufacturing plant at Chipri (near Jaysingpur) in Kolhapur District (Western Maharashtra), having a production capacity of to 350 MTPD (Edible oil). GFIPL manufactures edible oils like Soya, sunflower, coconut, groundnut, cotton seed oil & palm oil under the brand name "Star".

Brief Combined Financials of GCPL and GFIPL (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	578.57	800.81
PBILDT	28.23	44.77
PAT	-15.46	-21.92
Overall gearing (times)	3.57	9.13
Interest coverage (times)	1.29	1.26

A: Audited

Brief Standalone Financials of GCPL (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	388.00	269.29
PBILDT	-1.39	8.72
PAT	-15.38	-5.10
Overall gearing (times)	1.66	3.24
Interest coverage (times)	-0.24	0.59

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facilities: Please refer Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	14.91	CARE BB+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	8.73	CARE BB+; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	38.29	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	14.91	CARE BB+; Stable	1)CARE BB+; Stable (06-Apr-20)	-	1)CARE BB+; Stable (04-Dec-18)	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	8.73	CARE BB+; Stable / CARE A4	1)CARE BB+; Stable / CARE A4 (06-Apr-20)	-	1)CARE BB+; Stable / CARE A4 (04-Dec-18)	-
3.	Fund-based - LT-Cash Credit	LT	38.29	CARE BB+; Stable	1)CARE BB+; Stable (06-Apr-20)	-	1)CARE BB+; Stable (04-Dec-18)	-

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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