Godavari Biorefineries Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	634.08 (Enhanced from 632.73)	**CARE BBB-; Positive (Triple B Minus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable**
Short Term Bank Facilities	145.25 (reduced from 146.60)	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**779.33 (Rs. Seven Hundred Seventy-Nine crore and Thirty-Three Lakhs only)**		
Fixed Deposits Programme	**40.00* (Rs. Forty crore only)**	**CARE BBB (FD); Positive [Triple B (Fixed Deposit); Outlook: Positive]**	**Reaffirmed; Outlook revised from Stable**

**outstanding Rs.39.58 crore as on January 31, 2021*

Details of facilities and instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities and fixed deposit programme of Godavari Biorefineries Limited (GBL) is on account of continued financial support from promoters (Somaiya Group), company's long-standing track record in the sugar industry, fully integrated sugar producing unit, locational advantage, well diversified customer base as well as improvement in operating cycle resulting from decrease in inventory days.

These strengths are offset by moderate debt coverage indicators and capital structure, working capital intensive nature of industry along with cyclical nature of industry. The capital structure has improved though, on account of infusion of equity by promoters in FY20. Also, the short-term loan has been converted to long-term loans, thereby reducing the refinancing risk.

Rating Sensitivities

Positive Factors

- Increase in PBILDT margins beyond 12% on account of better operational performance on a sustained basis
- Decrease in Total Debt to Gross Cash Accruals (TDGCA) below 5x on account of reduction in debt level or improved operational performance on sustained basis

Negative factors

- Increase in overall gearing beyond 4.00x on continued basis
- Increase in operating cycle beyond 150 days on continued basis

Outlook: Positive

The 'Positive' outlook reflects the expected improvement in the company's profitability and cash accruals (as witnessed in 10MFY21) on account of increased diversion of sugar syrup to ethanol and focus on high margin specialty chemicals. Operating cycle is also expected to improve on account of further reduction in inventory days due to increased focus on distillery division (Ethanol) as ethanol is fast moving product as compared to sugar. The outlook may be revised to 'Stable' if PBILDT margins decline and operating cycle increases.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and long standing track record in sugar industry

GBL belongs to Somaiya group. Promoters have time and again extended financial support to the company in past and are committed to continue the same in future. The company was established by late Mr. K.J. Somaiya in the year 1939 as The Godavari Sugar Mills Limited and is currently managed by his grandson Mr. Samir Somaiya (CMD). The company has more than eight decades of track record in sugar industry. The promoters are well supported by experienced and competent management team.

Fully Integrated sugar producing unit with diversified product portfolio

Sugar division contributes majorly to GBL's revenue with contribution of 43.25% to its total sales in FY20 as compared to 41.42% in FY19. However, company has diversified into related businesses such as distillery, co-generation power and chemicals, thus mitigating the risk and forming fully integrated sugar producing industry. Contribution from distillery (ethanol) division is increasing and company is increasing its focus on ethanol as the division has higher operating margins. Earlier, GBL was

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

producing ethanol from molasses and now company is producing ethanol from sugar syrup, thus diverting its sugar production to ethanol. Contribution from ethanol division increased to 22.54% in FY20 from 16.90% in FY19 and further to 27.33% in 10MFY21.

Locational advantage

The company has facilities located in Maharashtra and Karnataka which are sugarcane growing regions. Sugarcane of Maharashtra and Karnataka has higher recovery than cane in other regions of India which provides companies with manufacturing facilities in this region better operational benefits. The recovery rate from sugarcane decreased to 8.19% in FY20 from 10.49% in FY19 on account of diversion of sugar syrup to ethanol. Recovery rate for current year's sugar season is expected to be 11.46%.

Improved Capital Structure with better debt coverage indicators

Company's net worth has increased to Rs.196.47 crores as on March 31, 2020 as compared to Rs.129.56 crore as on March 31, 2019 on account of additional equity capital brought in by the promoters and profit accretion. Promoters brought in Rs.64.21 crore of equity in FY20. Working capital requirement for the company also reduced on account of more ethanol production. Ethanol moves faster than sugar and has lesser inventory days and in turn decreases working capital requirement. Overall gearing improved significantly to 3.14x as on March 31, 2020 as compared to 6.16x as on March 31, 2019 on account of decrease in working capital borrowing and infusion of equity. Overall gearing further improved to 2.74x as on January 31, 2021. TDGCA improved to 13.22x in FY20 as compared to 15.26x in FY19 and further improved to 9.15x as on January 31, 2021 on account improved GCA in 10MFY21.

Well diversified customer base

Company has a well-diversified customer base with top 10 customers contributing only 47.98% to the total sales in FY20 as compared to 35.87% in FY19. Company also exports its products. However, India is still the highest contributor and contributed 80.34% to the revenue in FY20. Also, company's customers include wholesale customers who have better repayment terms. A well-diversified customer and geographical base prevents the company from customer concentration risk. Further, for distillery division, company has annual contracts with OMCs (Oil Marketing Companies).

Key rating weakness

Cyclical nature of business with raw material price fluctuation risk

The sugar industry is cyclical with dependence of sugar prices on acreage under sugarcane and availability of sugarcane which in turn is dependent on monsoon. Sugar prices are also dependent on demand and supply scenario of sugar in the market, thus impacting sugar prices and in turn margins of the sugar mill owner. The typical length of cycle is around four to five years. Further, sugarcane prices paid to farmers are regulated with Fair and Remunerative Price (FRP), which is the minimum price that the company is required to pay the sugarcane growers/farmers, being fixed by the State Government. In downward cycle of sugar industry, payment of FRP to farmers remains a challenge for sugar manufacturers and adversely affects the profitability of the companies.

Working capital intensive operations however improvement in operating cycle

GBL's business is a working capital-intensive business because of seasonality of agriculture business. The company needs to maintain inventory to offer steady supply of sugar as per the requirements of institutional customers and retail market, and also, the prices of sugar gradually increases over the sugar production cycle, thereby warranting high level of inventory during year end. The company also offers credit period to few customers against few instances of advances to farmers for supply of sugarcane. However, operating cycle improved significantly to 61 days in FY20 as compared to 111 days in FY19 mainly on account of reduction in inventory days to 129 days in FY20 from 154 days in FY19 and also increase in creditor's days to 100 days in FY20 from 74 days in FY19. Inventory days has reduced because company's sugar stock is less on account of its conscious decision to divert production from sugar to Ethanol. For sugar business, company maintains inventory to offer steady supply of sugar as per the requirements of institutional customers and retail market. Also, the prices of sugar gradually increase over the sugar production cycle, thereby warranting high level of inventory during end of sugar season. Company is projecting further decrease in its working capital requirement.

Regulatory risk as sugar industry is highly regulated

The sugar industry in India is extensively regulated by the government starting from the procurement of sugarcane to the sale of sugar. The industry is subject to the government policies which influence cost. In India, sugar mills are not allowed to own sugarcane fields. They have to mandatorily procure the entire sugarcane production from the specific area assigned to them, known as command area which leads to considerable variability in their inventory-holding patterns and management of working capital for a sugar mill. Further, Cane prices are controlled by the Government by FRP (Fair & Remunerative Price). Import and export of sugar is also controlled by the Government. Prices of ethanol (by-product of sugar) is also regulated by GOI. Thus, sugar companies do not have much control over all these factors which significantly affect the economies of their operations.

Liquidity: Adequate
Company has repayment obligation of Rs.58.82 crore in FY22 against which GCA is expected to be sufficient. Overall gearing is high at 2.74x as on January 31, 2021. Company's average fund-based utilization for past 12 months ending on January 2021 is moderate at 76.74% and 96.08% against the sanctioned fund-based limit of Rs.283.20 crore respectively. As on date, GBL has stock of 6 lakh quintal bags at Rs.3,100 per quintal. Thus, inventory valued at Rs.186 crore. Company does not have any cane arrears for FY20.

Analytical approach: Standalone. Also, support from strong promoter group is taken into consideration.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing companies
Financial ratios: Non-financial sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
GBL is an integrated sugar company operating in sugar, power, industrial alcohol and specialty chemicals. The company has an integrated sugar plant in Sameerwadi, Karnataka for cane crushing, cogeneration and an ethanol blending unit. Besides, the company also has a distillery unit and a chemical unit to produce ethyl acetate at Sakarwadi, Maharashtra. The chemical unit was converted into an export oriented unit (EOU) w.e.f July 01, 2011. The company's chemical division exports ethyl acetate to Middle East, Africa and European countries. The company has an in-house retail brand "Jivana" for sale of sugar, turmeric and salt in the states of Rajasthan Maharashtra, Karnataka and Gujarat.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1548.41	1449.48
PBILDT	134.38	104.93
PAT	2.18	1.65
Overall gearing (times)	6.16	3.14
Interest coverage (times)	1.51	1.54

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/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: 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
Non-fund-based - ST-BG/LC	-	-	-	145.25	CARE A3
Fund-based - LT-Term Loan	-	-	FY29	337.53	CARE BBB-; Positive
Fund-based - LT-Cash Credit	-	-	-	296.55	CARE BBB-; Positive
Fixed Deposit	-	-	-	40.00	CARE BBB (FD); Positive

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	145.25	CARE A3	-	1)CARE A3 (03-Apr-20)	1)CARE A3 (05-Apr-19)	1)CARE A3 (05-Apr-18)
2.	Fund-based - LT-Term Loan	LT	337.53	CARE BBB-; Positive	-	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)
3.	Fund-based - LT-Cash Credit	LT	296.55	CARE BBB-; Positive	-	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)
4.	Fixed Deposit	LT	40.00	CARE BBB (FD); Positive	-	1)CARE BBB (FD); Stable (03-Apr-20)	1)CARE BBB (FD); Stable (05-Apr-19)	1)CARE BBB (FD); Negative (05-Apr-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.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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

Contact us

Media Contact:
Name: Mradul Mishra
Tel: +91-22-6837-4424
Email: mradul.mishra@careratings.com

Analyst Contact:
Name: Parijat Sinha
Tel: +91-22-6754-3446
Email: parijat.sinha@careratings.com

Relationship Contact:
Name: Saikat Roy
Tel: +91-22-6754-404
Email: saikat.roy@careratings.com

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