

Gujarat Credo Alumina Chemicals Limited

September 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	260.63 (Enhanced from 50.75)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	28.45 (Enhanced from 26.45)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	23.00	CARE A3 (A Three)	Assigned
Total Bank Facilities	312.08 (₹ Three Hundred Twelve Creore and Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Gujarat Credo Alumina Chemicals Limited (GCACL) continues to derive strength from experienced promoters, location advantage, reputed clientele with healthy orderbook and availability of bauxite through its group company which has long-term raw bauxite supply agreement with Gujarat Mineral Development Corporation Limited (GMDC). The ratings also factors in its healthy growth in scale of operation in its short track record of operations.

However, the ratings are continue to remain constrained by moderate capital structure and debt coverage indicators, capital intensive operations with low return indicators despite healthy profitability, strong competition in the industry and susceptibility of profitability to volatile raw material prices and fluctuations in forex rates.

Rating sensitivities

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

- Stabilization of new project with TOI of more than Rs.200 crore with PBILDT of more than 35% on sustained basis
- Improvement in debt coverage indicators of the company marked interest coverage of more than 4 times and total debt to GCA of less than 5 times

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

- Delay in project implementation or cost overrun
- Significant decline in TOI and/or PBILDT margin falling below 20% on sustained basis
- Any further deterioration in capital structure with overall gearing above 2.5 times

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoters

GCACL is a wholly owned subsidiary of Credo Mineral Industries Ltd (CMIL), which has resourceful promoters. CMIL is majorly incorporated by three high net-worth families with few other HNIs. Gujarat Apollo Industries Ltd. (Gujarat Apollo, listed company) holds ~ 20% in CMIL. Mr. Rakesh Shah & his family holds ~23% stake whereas Omkareshwar Mines & Minerals Pvt Ltd. (held by Mr. Naman Patel & family who also holds directorship in other credo group entities and GAIL) holds ~17% stake. M/S. Chem Asia Technologies Pte Ltd (Chem Asia), an investment and Trading Company based in Singapore (Global distributor of ATH products) hold ~12% stake. Balance stakes are held by other HNIs and retail shareholder. Promoters had infused need-based support in the company. CMIL also has another subsidiary, Gujarat Credo Minerals Private Limited (GCMIL – rated CARE BBB; Stable/ CARE A3+) was incorporated in March 2012, as a Joint venture between Credo Mineral Industries Limited (CMIL) and Gujarat Mineral Development Corporation Limited (GMDC) and is engaged in beneficiation of law grade bauxite and manufacturing of Zeolite.

Mr. Rakesh Shah (FCA, FCS, LLB, ISA, B.COM) is highly qualified and having vast experience in the field of finance, law and taxation. He has over twenty years of experience in investment management, private wealth management and corporate finance. He co-promoted Credo Group in 2003 and has been a significant contributor to the evolution and growth of group's business. Mr. Naman Patel, MBA, having more than 15 years of experience in this field of business and look after the operations of the company.

Location advantage of setting up manufacturing plant at Mundra SEZ

GCACL has entered in to 30 year lease with Adani Ports & Special Economic Zone Ltd. to set up its manufacturing facility at Mundra SEZ, Gujarat having proximity to Mundra Port. Furthermore, the company derive various fiscal benefits along-with ease in export of ATH. GCACL has benefits of single window clearance of all statutory clearance and relaxed labor laws and is eligible for 100% exemption on export profits for first 5 years commenced from FY20 and 50% for the next 5 year under Income Tax Act. GCACL is also exempt from electricity duty for 10 years from the date of commencement of operations.

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

Availability of key raw material i.e. Bauxite through GCMIL which has long-term raw bauxite supply agreement with GMDC

GMDC is a GoG owned company having bauxite mines in the state of Gujarat including district Kutch. It has bauxite reserves of approx. 176 Lakh MT spread over 2055 hectares of land. Raw bauxite is one of the scarce mineral and GCMIL; a JV with GMDC is acting as an entry barrier for other players to enter in this business. Beneficiated bauxite manufactured by GCMIL is used as a raw material by GCACL for manufacturing ATH at its manufacturing facility at Mundra Special Economic Zone (SEZ), Gujarat with an installed capacity of 65,000 MTPA (started operations in June 2019) which increased to 72,000 MTPA as on March 31, 2022.

Growing scale of operations with healthy profitability

GCACL's total operating income is continuously growing with addition of new customer and is supported by higher utilization of its capacity. Further, it underwent de-bottlenecking in FY22, making the process more efficient which has increased the capacity of the company to 72000 MTPA from FY23 onwards. During FY22, TOI has increased to Rs. Rs.147.79 crore (PY – Rs. 90.28 crore). For the first two months of FY23, GCACL has achieved revenue of ~Rs. 38 crore. Considering the oligopoly in the market and high demand of the product company had reported healthy operating margin of 33.69% during FY21 with GCA of Rs.16.71 crore. However, with sudden increase in raw material prices of caustic and coal, profitability took significant hit in FY22 to 20.93% due to annual nature fixed price nature of contracts whose prices are revised in FY22 and tenure is also shortened. Going forward the operating margins are expected to remain above 35%.

Reputed clientele

GCACL is getting benefit in terms of long-standing presence and synergetic product profile of Credo group in growing clientele base within very short span of commencement of operation. Top 5 customers contributing ~54% of net sales in FY21 and ~49% in FY22 (Provisional) reflecting moderate customer concentration. However, clientele base of GCACL includes reputed players from Glass, detergent and water treatment industry having leading positions in their respective industry segments. GCACL has earlier entered into yearly fixed price contracts which has been revised to half yearly/quarterly price revision contracts in FY23 considering the volatility in input prices.

Key rating weaknesses

Moderate capital structure and debt coverage indicators

GCACL's project is majorly debt funded and it has short track record of operations resulting in leveraged capital structure marked by overall gearing of 2.33x as on March 31, 2022. The debt coverage indicators of the company remain moderate marked by interest coverage of 2.13x and very high TD/GCA of 16.19x as on March 31, 2022. In the presence of on-going capex plans, i.e. zeolite production unit, over the medium term and with progressive repayment of term debt, financial risk profile is expected to remain moderate.

Capital intensive operations with low return indicators

GCACL's operations are highly capital intensive marked by low asset turnover ratio of 0.42x for the year ended March 31, 2022. Thereby, despite healthy profit margin, return indicators marked by ROCE and RONW remain low at 4%-5% and is expected to increase but remained moderate at 10%-12% going forward with expected PBILDT margin of over 35%.

Project risk

The company is undertaking a capex of approximately Rs. 80 crore for setting up a synthetic zeolite plant to be completed by end of FY23. Out of Rs.80 crore, Rs.51 crore will be financed from SBI term loan and the remaining will be financed from internal accruals and promoter infusion. The plant will be set on an annual capacity of 25,000 MT. Company had incurred part cost though funds from GECL loan/working capital changes. Considering initial stage of project and high project gearing, there is risk associated in terms of timely completion of project within cost parameters as well as achievement of envisaged level of scale and profitability in light of anti-dumping duty on imports expiring in 2023.

Competition from established player in the market

On the basis of end-use industry, the ATH market is segmented into plastic industry, paper industry, paints and coatings industry, adhesives industry, chemical industry, pharmaceuticals industry and others. The industries using ATH as their raw material are facing one major issue of timely availability of material at competitive rates. In the current scenario there is largely one single domestic supplier of ATH (i.e. Hindalco with captive bauxite mines) who has a dominant domestic market share which allows it to dictate prices and quantities to be sold.

Susceptibility of profitability to volatile raw material prices and fluctuations in forex rates

Bauxite, caustic soda and coal are key raw material for GCACL comprising more than 70% of total raw material consume. These raw materials are commodity in nature deriving prices from global demand supply dynamics. Due to the volatility in caustic soda and coal prices, GCACL took a hit in profit, as the price of the products were decided on an annual basis and with increase in prices of raw material, GCACL was not able to pass on its prices. Also, the orders were on CIF basis, so the increase in freight cost was burdened on the company. However to mitigate the above mentioned issues, in FY23 the company has shifted to shorter duration orders so that price volatility will be factored in every fresh orders. Also, in case of export orders which are on CIF basis, price escalation clauses have been incorporated. Further, GCACL has majority of its borrowings in the form of Foreign currency loans (FCTL - o/s Rs.169.72 crore as on March 31, 2022) against which GCACL's exports comprise around 35% to 40% of its sales. The profitability of GCACL is susceptible to volatile forex rates, however, with natural hedging, same is mitigated to an extent.

Liquidity analysis - Adequate

GCACL has adequate liquidity position marked by healthy cash accruals against high debt repayments, healthy cash and bank balance but moderate utilization of fund based limits and operating cycle. The company has policy to offer a credit period of 30 days and beyond that company takes bills as security. However, considering nature of raw material (i.e. Bauxite) company needs to maintain high level of inventory to mitigate any lead time pressures. The average fund based working capital utilization for past twelve months ended on March, 2022 remained high at 84%. Going forward, company has moderate term loan instalment repayment obligations of around Rs.28-30 crore against it is expected to generate adequate GCA of around Rs.35-45 crore. Current ratio remained lower at 1.09 times as on March 31, 2022. During FY22, company has reported healthy cashflow from operations of Rs.38.15 crore (FY21: Rs.23.49 crore). Further, as on March 31, 2022 cash and bank balance stood at Rs.14.22 crore and Rs.4.13 crore was lien marked FDs.

Analytical approach: Standalone while factoring in linkage in form of company being a part of Gujarat based Credo Group

Applicable criteria

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

About the company

Incorporated on May 14, 2016, Gujarat Credo Alumina Chemicals Limited (GCACL; CIN :- U14290GJ2016PLC092013) is wholly owned subsidiary of Credo Mineral Industries Limited (CMIL) as a forward integration project of Credo Group to manufacture different grades of Aluminum Tri-Hydrate (ATH). ATH is used as a raw material in the production of various industrial chemicals such as Aluminum Sulphate, Aluminum Chloride, Aluminum Fluoride, Cement and for synthetic Zeolite forms. CMIL, the holding company is promoted by Mr. Rakesh Shah, Mr. Naman Patel, Mr. Anil T. Patel and few other HNIs. CMIL on a standalone basis has largely no business and is a holding company of the group.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	June 30, 2022 (Prov.)
Total operating income	90.28	147.79	50.19
PBILDT	32.81	30.93	15.84
PAT	6.56	2.86	NA
Overall gearing (times)	2.60	2.30	NA
Interest coverage (times)	1.80	2.13	5.32

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	-	28.45	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	-	December, 2031	260.63	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	23.00	CARE A3

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (09-Aug-21) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (09-Aug-21) 3)CARE BB; Stable; ISSUER NOT COOPERATING* (30-Apr-21)	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (31-Mar-20)
2	Fund-based-LT/ST	LT/ST*	28.45	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (02-Aug-22) 2)CARE BBB-; Stable / CARE A3 (20-Jul-22)	-	-	-
3	Fund-based - LT-Term Loan	LT	260.63	CARE BBB-; Stable	1)CARE BBB-; Stable (02-Aug-22)	-	-	-
4	Non-fund-based - ST-Letter of credit	ST	23.00	CARE A3				

*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 for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-LT/ST	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

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

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Akhil Goyal
Phone: 8511190015
E-mail: akhil.goyal@careedge.in

Relationship contact

Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

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