Gulshan Polyols Limited

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	102.50 (Reduced from 141.25)	CARE A+; Stable (Single A Plus; Outlook: Stable)	**Reaffirmed**
Short Term Bank Facilities	10.00 (Enhanced from 8.75)	CARE A1+ (A One Plus)	**Reaffirmed**
Total Bank Facilities	**112.50 (Rs. One Hundred Twelve Crore and Fifty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation for the ratings assigned to the bank facilities of Gulshan Polyols Limited (GPL) continue to derive strength from GPL's comfortable financial risk profile characterized by comfortable solvency and debt coverage indicators. The ratings also take into account extensive experience of GPL's promoters and management team with established track record of operations, diversified product profile and its reputed clientele from various industries. The ratings are, however, constrained by volatility in prices of agro-based raw material and consequent impact on margins and competition from organized and unorganized players.

Going forward, the company's ability to sustain & enhance its profitability margins, to enhance its operations from the distillery segment and maintain its capital structure with effective working capital management would remain the key rating sensitivities.

GPL has not sought any moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Rating Sensitivities

Positive Factors

- Sustained growth in turnover by more than 30% with rise in PBILDT margins beyond 15% over the projected years
- Total Debt to GCA of less than 0.5x on a sustained basis.

Negative Factors

- Any deterioration in the Capital structure with overall gearing increasing beyond 0.75x on a sustained basis for 2 years or more going forward
- Total debt to EBIDTA higher than 2x on a sustained basis.
- Any future capex or expansion other than envisaged which has an adverse impact on the credit or liquidity profile of the company
- Significant increase in the operating cycle on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team

The promoter of GPL, Dr CK Jain, has an experience of over four decades in the chemical industry. The company's senior management team comprises well-qualified and experienced professionals. The company's board comprises of ten directors of which five are independent directors looking after separate operational areas.

Diversified product profile

GPL has a diversified range of products comprising of Calcium Carbonate (CC), Sorbitol & liquid glucose (LG) and starch in its product portfolio. The manufacturing facilities for CC and starch (corn grinding) are located at Muzaffarnagar (UP), Dhaula Kuan (HP) and Bharuch (Gujarat) with total installed capacity of 1,06,000 MTPA for CC and 87000 MTPA for sorbitol and liquid glucose and 60,000 MTPA for starch as on March 31, 2020. The company also manufactures by-products like gluten, corn oil and animal feed used for cattle and poultry feed.

The company has also set up facilities for Onsite Precipitated Calcium Carbonate (Onsite PCC) Plant for various companies in Paper Industry including ITC Ltd, Orient Paper Mill, etc. The Onsite PCC plant for paper mills is a patent technology developed by the company which helps GPL to derive economy in cost, production and supply chain.

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

Further, from Dec 2017, GPL had commenced the commercial production of ENA and Rectified Spirit and as on date the total installed capacity of the same stands at 60,000 liters per day. Till FY20 (refers to period April 01 till March 31), the sales contribution from ENA/ Liquor related segment has remained low at around 1-2% of total sales, however, the same has started picking up in H1FY21 as the company has sold more ethanol to oil marketing Public Sector Undertakings in H1FY21. The contribution from ENA/ Liquor segment in H1FY21 has increased to around 14% of total sales. Going forward, the company expects to increase its sales from this segment. Further, the company has also got license in September 2020 for wholesale supply of country spirits/ liquor in the state of Madhya Pradesh which will further enhance its scale of operations along with diversifying its revenue profile.

Reputed clientele from diverse industries

The client profile of GPL is diversified and includes reputed players from various industries. GPL derives its revenue from sale of products like sorbitol, liquid glucose, fructose, CC, by-products and ENA/IMFL as well as trading of calcium carbonate. Sorbitol, starch and its derivative products find application in diverse industrial and commercial uses such as food & drink, paper & board, personal care & pharmaceuticals, textile, FMCG, animal & pet foods etc. CC is used in PVC irrigation pipes and cables, paints, dentifrice, detergents, rubbers, plastics etc. along with personal health and food production. It is also used as a building material in marble and as an ingredient of cement.

During FY20, the company has registered operating income of Rs.621.74 crore. Out of total sales in FY20, export sales which are done to more than 40 countries across 3 continents contributed to ~16% of the total operating (PY: 13%).

Comfortable financial risk profile

The financial risk profile of GPL remained comfortable. During FY20, the company has registered decline in operating income of 7.83% to Rs.621.74 crore (PY: Rs 674.60 crore) due to shutting of operations by the company in the latter half of March-20 due to the outbreak of Covid-19 and subsequent lockdown. GPL had to completely shut its manufacturing plants w.e.f. 23rd March 2020 till 31st March 2020, which affected the revenue as well as profitability of the company. The company however restarted operations w.e.f April 2020 in a phased manner. The PBILDT margin for FY20 stood at 11.23% as against 12.51% in FY19. The decline in margin is due to lower absorption of the fixed cost due to loss of sales in the latter half of March due to shut-down and partially due to increase in raw material cost of maize. The prices of raw material viz. maize increased in 9MFY20 due to hike in minimum support price and lower production in Karnataka and AP. The realizations though improved but there was a time lag in the same which affected the margins.

Further in H1FY21 (refers to period April 01 till September 30), the company registered the revenue of Rs.330 crore as compared to Rs.345.78 crore in H1FY20 with a marginal decline of 4.50%. The decline in revenue is due to the impact of lockdown in Q1FY21 which resulted in lower sales. However, the PBLIDT and PAT have increased in H1FY21 in comparison to H1FY20. The PBLIDT and PAT for H1FY21 stood at Rs.51.92 crore (PY: Rs.39.20 crore) and Rs.22.30 crore (PY: Rs.13.02 crore) respectively. The increase in profitability and margins is on account of increase of sales contribution from distillery and grain processing segment which fetched better margins for the company.

The capital structure of the company also stood comfortable with the debt to equity and overall gearing ratio stood 0.14x and 0.33x respectively as on March 31, 2020 improved from previous year when the respective ratios stood at 0.24x and 0.50x as on March 31, 2019 due to scheduled repayment of debt and enhanced net worth base on account of accretion of profits to reserves. Company is planning to undertake capex in a phased manner in next 2-3 years with an estimated COD of June 2024 for expanding the existing capacity of distillery segment from 60 KLPD to 300 KLPD. The estimated cost for the planned capex will be around Rs.250 crore which will be funded in the debt equity ratio of 2:1. The company has not tied up any debt for this so far and has just filed for environmental clearance which is expected to be received by Oct 2021.

Liquidity: Adequate

The liquidity profile of the company is adequate with the average working capital utilization of ~62% for the last 12 months ending October 2020 leaving sufficient buffer in the working capital lines. The company has further, reduced its overall sanctioned working capital limits from Rs.110 crore to Rs.90 crore in August 2020. The company has an operating cycle of 87 days as on March 31, 2020. As on March 31, 2020, the company had cash and cash equivalents of Rs.2.43 crore while as on Sep 30, 2020, GPL had cash and cash equivalents of Rs.12.35 crore. Further, As on Dec 14, 2020, GPL had maintained liquid MFs of Rs.14.98 crore and FDs of Rs.45 crore with banks. Current ratio and quick ratio stood at 1.43x (PY: 1.31x) and 0.76x (PY: 0.95x) respectively as on March 31, 2020. Further, GPL has repayment due of Rs.19.50 crore in FY21, out of which Rs.14.50 crore has already been paid till Sep 30, 2020. The company has further not availed any moratorium facility provided by RBI and the company is paying as per the original schedule.

Key Rating Weaknesses

Volatility in agro-based raw material availability & prices

The Maize prices remain volatile on account of various factors including changes in minimum support prices (MSP) announced by the government, actual production levels, inflation, growth in the economy, demand supply scenario etc. Maize is mainly a rain fed kharif crop which is sown just before the onset of monsoon and is harvested after retreat of the monsoon. Cost of Maize remains high for the kharif crop where harvesting starts from mid-October owing to higher freight cost from Maharashtra and southern regions. The government has raised the MSP of kharif crops in a bid to address rural distress with the MSP for maize for FY21 (Kharif crop season) at Rs.1850/quintal. The corn prices had been increasing since December 2018 and were at an all-time high in FY20 due to high MSP and prolonged monsoon. However, this is expected to improve over the medium term since the raw material prices have dropped post Covid-19 due to subdued demand from the poultry sector and also due to oversupply of the crop. Since majority of the clients are large fast-moving consumer goods and pharmaceutical companies, the bargaining power is limited in terms of the price flexibility. The industry is highly consolidated in terms of catering to such customers but significant competition exists among the top 5-6 players and this also limits the pricing flexibility to an extent. The company also uses rice, another agricultural commodity, to manufacture dextrose monohydrate, malto dextrin powder, glucose powder and rice gluten for food and pharmaceutical applications.

Competition from the organized and small-scale unorganized units

In the Sorbitol industry, although the company is having a dominant position, it faces competition from other large organized players. Furthermore, the CC industry in India comprises of few organized players and other small scale unorganized players. GPL faces competition from both the organized and unorganized players. The company also faces competition from cheaper imports.

Industry Outlook

The Indian starch and derivatives market scenario has witnessed significant changes in the last few years. Starch processing is one of the top five food processing industries in India with a significant history of high employment, food product growth and food infrastructure developments. Maize is the major raw material used to produce starches and the derivatives. Of the total maize produced in India, only 10 to 12 percent is being consumed by the starch industry. Poultry and animal feed industry get priority in terms of maize supply over the starch industry. Hence, for the CWMs (corn wet mills), obtaining the right quality of maize as well as ensuring a seamless supply of maize are the most important for the good quality and continuous production of starches and sweeteners. The growing consumption of convenience foods and the healthy year-on-year growth in the paper and textile industries are creating highly a fertile ground for the growth in corn starch sales across the world, but particularly in the Asia Pacific region. The major users of starches and derivatives are food, textile, paper, and pharma sectors.

High-value food processing industry is a promising sector where the demand for starches and derivatives is in a nascent stage, but strong. The corn starch industry was impacted after the outbreak of COVID-19 as the bulk corn starch user segments of textile and paper were down and the industry will operate at optimum capacity depending upon how fast the user industry comes back on track, though the gradual signs of recovery have been sign post the lockdown restriction were eased.

Ethanol is a prominent alcoholic beverage, mainly found in beer, cider, wine, spirits and ale. Indian government is trying to reduce its dependence on imported crude oil and incentivizing Indian sugar manufacturers to produce ethanol for Oil Marketing Companies (OMCs). It is expected that ethanol production will increase by three to five folds in the future in order to meet the demand for its 20% Fuel Blending Program (FBP). Ethanol supply for Ethanol Blending Programme (EBP) for the current ESY 2019-20 is estimated at 193 crore litres. This is based on the offers received so far from ethanol producers and the amount of ethanol contracted by Oil Marketing Companies (OMCs) for supply during the year. Going forward, with government focus on increasing production of ethanol from molasses and various other raw materials will be beneficial for the company.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector

About the Company

GPL was incorporated in 1981 as Gulshan Sugar & Chemicals Ltd (GSCL) for manufacturing of Calcium Carbonate with an initial capacity of 2100 MTPA at Muzaffarnagar (UP). In 1996, GSCL diversified into manufacturing Sorbitol with an initial capacity of 15000 MTPA. In 2000, the Sorbitol business was demerged into a separate entity in the name of Gulshan Polyols Ltd (GPL). In 2007, the management decided to merge the two entities to drive cost benefits and improve overall profitability. In effect, GSCL was merged with GPL. Presently, GPL is engaged in the manufacturing of Calcium Carbonate (CC) and Sorbitol & Liquid Glucose (LG) and starch. The manufacturing facilities for CC are located at Muzaffarnagar (UP), Dhaula Kuan (HP), Abu Road (Rajasthan) and Patiala (Punjab) while that of Sorbitol & LG are located at Bharuch (Gujarat). Further, from Dec 2017, GPL had commenced the commercial production of ENA and Rectified Spirit and as on date the total installed capacity of the same stands at 60,000 liters per day. As on March 31, 2020, the total installed capacity of Sorbitol & LG stood at 87,000 MTPA, CC was 1,06,000 MT and starch was at 60,000 MTPA.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	674.60	621.74
PBILDT	84.36	69.82
PAT	21.43	20.58
Overall gearing (times)	0.50	0.33
Interest coverage (times)	5.92	6.13

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

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-Long Term	-	-	-	90.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	10.00	CARE A1+
Term Loan-Long Term	-	-	March 2022	12.50	CARE A+; 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-Long Term	LT	90.00	CARE A+; Stable	-	1)CARE A+; Stable (17-Jan-20)	1)CARE A+; Stable (28-Dec-18)	1)CARE A+; Stable (07-Nov-17)
2.	Non-fund-based-Short Term	ST	10.00	CARE A1+	-	1)CARE A1+ (17-Jan-20)	1)CARE A1+ (28-Dec-18)	1)CARE A1+ (07-Nov-17)
3.	Term Loan-Long Term	LT	12.50	CARE A+; Stable	-	1)CARE A+; Stable (17-Jan-20)	1)CARE A+; Stable (28-Dec-18)	1)CARE A+; Stable (07-Nov-17)

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-Long Term	Simple
2.	Non-fund-based-Short Term	Simple
3.	Term Loan-Long Term	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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