Godavari Biorefineries Limited

November 09, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	791.00 (Enhanced from 654.08)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	97.00 (Reduced from 125.25)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	**888.00** **(₹ Eight Hundred Eighty-Eight Crore Only)**		
Fixed Deposit	75.00	CARE BBB; Stable (Triple B; Outlook: Stable	Reaffirmed
Total Medium Term Instruments	**75.00** **(₹ Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Godavari Biorefineries Limited (GBL) continues to derive comfort from strong promoter group along with long standing track record in sugar industry, fully integrated sugar producing unit with diversified revenue profile, locational advantage along with broad and reputed clientele base.

The reaffirmation of ratings takes into account expected improvement in the operating and financial performance of the company in the upcoming sugar season 2023 on the back of capex nearing completion and stabilization of the same resulting into higher revenue and profitability as envisaged. Further, with no further major capex planned in near to medium term, the enhanced production of sugar and ethanol in upcoming sugar season will benefit the company in terms of improved cash flows thereby reducing the need for further debt and facilitate improved liquidity in the company. This is also expected to benefit the company in terms of improved business risk profile on the back of further diversification of revenue stream.

However, the above strengths continue to be tempered by moderation in profit margins, leveraged capital structure and moderate debt coverage indicators, project implementation and stabilization risk, working capital intensive nature of operations, vulnerability of operations to agro-climatic conditions and profit margins susceptible to volatile raw material prices as well as being part of a seasonality, regulated and cyclical sugar industry

Rating sensitivities

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

- Improvement in the PBILDT and PAT margins exceeding 12% and 5% on a sustained basis.
- Improvement in Total Debt to Gross Cash Accruals (TDGCA) below 3.75 times on account of reduction in debt level or improved operational performance on sustained basis.
- Improvement in overall gearing to ~1.25x led by reduction in debt level and further increase in tangible net worth base on a sustained basis.

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

- Significant Deterioration in overall gearing exceeding 3.5x.
- Sizeable deterioration or significant underachievement in terms of profitability and cash accruals as compared to envisaged levels leading to deterioration in debt coverage indicators and liquidity.
- Significant Deterioration in operating cycle resulting into higher utilization of working capital limits as well as stretch in liquidity position.

Detailed description of the key rating drivers

Key rating strengths

Strong promoter group along with long standing track record in sugar industry

GBL belongs to Somaiya group. Somaiya Group is one of the old and well-established Industrial Houses in India and has diversified interest in Sugar and its allied products, Alcohol and Bulk Organic Chemicals, Specialty Chemicals, Renewable Energy, Printing and Publishing, Education, Hospital and Social Welfare. The group is Mumbai based and runs hospital, NGOs and various educational institutes across various parts of Mumbai.

Promoters have time and again extended financial support to the company in past. 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 company is currently managed by a ten-member board having extensive experience and is supported by a team of eminent and well qualified professionals from relevant fields.

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

Locational advantage
The company has sugarcane crushing facility at Sameerwadi, Karnataka along with distillery and Co-Gen power plant. Besides, the company also has another manufacturing plant engaged in production of chemical products at Sakarwadi, Maharashtra. 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 net recovery rate from sugarcane remained stable at 7.47% in FY22 vis-à-vis 7.37% in FY21. Thus, the location of the sugar plant is considered to be favourable on account of the region being a sugarcane producing region and it facilitates consistent and abundant availability of sugarcane for sugar and allied manufacturing activities.

Fully integrated sugar producing unit with diversified revenue profile
GBL operates a fully integrated sugar plant with capacity to crush around 15,000 tonne per day (TPD), a CO-Gen plant with capacity of generating 45.56 MWH and a distillery of 400 kilo litre per day (KLPD). The revenue profile is diversified characterized by its presence in production of sugar, ethanol, power and chemicals. The company derives around 38.06% (P.Y~35.15%) of revenue from chemical, followed by sugar contributing 30.78% (P.Y.~32.31%), ethanol contributing around 29.02% (P.Y.~ 29.89%) and remaining from power. Contribution from ethanol division has more or less remained steady at 29.02% in FY22 mainly due to the large increase in revenue contribution from chemicals division. Going forward, with the completion of capex, the sugarcane crushing capacity and distillery capacity is set to increase further.

Growth in scale of operation
During FY22, GBL's total income reflected an improvement of ~10.78% and stood at Rs. 1,690.80 crore in FY22 vis-à-vis Rs. 1,526.26 crore in FY21 owing to higher sales derived from the chemical division, followed by distillery division and partly from sugarcane division.

Broad and reputed clientele base
The company has a broad customer base with top ten customers contributing 48.67% of the total sales in FY22 vis-à-vis 24.39% to the total sales in FY21. GBL also exports its products. However, India still remains the highest contributor and contributed 71.47% to the revenue in FY22. Also, company's customers include wholesale customers as it undertakes institutional sales to beverage players as well as for distillery division, company is selling to OMCs (Oil Marketing Companies). Thus, with the company selling the products to well established and reputed clients, the counterparty credit risk is also mitigated to an extent.

Key rating weaknesses
Moderation in profit margins
The profitability margins i.e. PBILDT of GBL have moderated in FY22 and stood at 7.75% in FY22 vis-à-vis 10.13% in FY21. PAT margin also deteriorated from 1.61% in FY21 to 0.97% in FY22. This has also reduced the gross cash accruals generated by the company on a y-o-y basis. The deterioration in profitability margins is basically due to the margins from the chemical segment deteriorating on account of the Ukraine-Russian war and the volatile input prices. Energy prices especially coal prices went up very high in the current fiscal, which the company could not pass the same as the first half of the current fiscal is off season as the company mainly uses sugarcane as the major input for production. The company has reported loss of Rs. 6.96 crore in Q1FY23 vis-à-vis reporting PBT of Rs. 9.88 crore in Q1FY22 with the PBILDT margin at 3.48% in Q1FY23 as compared to 8.32% in Q1FY22. However, basis the company's initiative to set put up a pelleting plant for sugar cane bagasse in the manufacturing facility located at Sameerwadi and transporting the pelleted bagasse to substitute half of the company's coal requirement is expected to bring down the energy costs. This coupled with the expectation of company reaping the benefits of the capex undertaken, the profit margins is expected to improve. Hence, going forward, achievement of profit margins as envisaged is crucial from credit perspective.

Leveraged capital structure and moderate debt coverage indicators
The overall gearing of the company deteriorated marginally to 2.92x as on March 31, 2022 vis-à-vis 2.81x as on March 31, 2021 on account of increase in debt level led by increase in term debt, working capital bank borrowings and increase in public deposits availed. Besides, the company's tangible net worth base improved from Rs. 223.19 crore as on March 31, 2021 to Rs. 239.46 crore as on March 31, 2022 on the back of accretion of profits to reserves. The capital structure has remained leveraged owing to the ongoing capex. Going forward, GBL's capital structure is expected to improve with the improved cash flows as a result of commencement of additional capacities and debt repayments. Any growth plans resulting in a sizeable term debt being availed and resulting into deterioration in the financial risk profile shall will remain a key rating sensitivity factor.
Debt coverage indicators marked by total debt to gross cash accruals deteriorated to 9.41x in FY22 vis-à-vis 7.14x in FY21 on account of increase in debt level and decline of 15.51% in cash accruals in FY22 over FY21. Furthermore, the interest coverage ratio remained stable and slightly improved to 2.18x in FY22 vis-à-vis 2.16x in FY21. However, the debt coverage indicators stood moderate in FY22.

Working capital intensive operations
GBL's business is a working capital-intensive business because of seasonality of agriculture business. The company needs to procure inventory from the farmers during the harvesting period and being a well established and one of the major sugar producer in the region is able to get the sugarcane from the farmers in abundance along with good credit period which the company makes payments in a phased and regular manner to the farmers. Besides, the company exports products on advance basis and collection period for domestic sale of sugar to institutional customers and sale of ethanol to OMCs is steady at around 30-40 days. The company needs to maintain inventory to offer steady supply of sugar as per the requirements of institutional customers and retail

market throughout the year, and also, the prices of sugar gradually increase over the sugar production cycle, thereby warranting high level of inventory during year end. The average utilization of its working capital limits stood at 81.64% during past twelve months ending September 30 2022.

Project implementation and stabilization risk
Earlier, the company had planned capex for undertaking ethanol expansion programme involving total outlay of around Rs. 138 crore to be funded by debt of around Rs. 98.00 crore and remaining Rs. 40.00 crore from internal accruals. The Ethanol expansion was to increase the capacity from 400 KLPD to 600 KLPD under ethanol blending program. However, the company has revised the scope of the project to Rs. 211 crore involving the boiler installation, Ethanol capacity expansion as well as increasing the sugar crushing capacity from 15,000 TPD to 18,000 TPD. Of the Rs. 211.00 crore, the company has already spent Rs. 172.00 crore and the remaining Rs. 39.00 crore is to be spent towards the project. The debt is already tied up for the project. The project is already nearing completion and the same is expected to commence by November 2022. Thus, post completion, the project's successful implementation and stabilization remains crucial and therefore the contribution from the same in the current sugar season 2023 remains to be seen and any underachievement of the same is key rating monitorable.

Seasonal, cyclical & regulated nature of sugar business
The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro-climatic risks. Climatic conditions, more specifically, the monsoons influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. Also, the degree of dispersion of monsoon precipitation across the sugar-growing areas also leads to fluctuating trends in sugar production in different regions. CARE notes that while recovery rates for GBL has been at around 11.65% for period ended March 31, 2022. Higher recovery rates lead to reduction in cost of production of sugar thus supporting margins.
The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies. Thus, the company's performance can be impacted by disproportionate increase in cane price in any particular year. Furthermore, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. However, healthy exports and higher diversion of sucrose towards ethanol in the recent past resulted in favourable demand-supply dynamics in the country, thus resulting in improved realisations.

Liquidity: Adequate
Liquidity is marked by steady and adequate gross cash accruals being generated in FY22. The company's average and maximum fund-based utilization for past 12 months ending Sept 2022 stood at 81.64% and 98.00% against the sanctioned fund-based limits. Also, cash flow from operating activities remained positive at Rs. 37.78 crore in FY22 vis-à-vis positive cash flow from operation at Rs. 137.31 crore in FY21. Further, current ratio remained as per industry standard. Free cash and bank balance stood at Rs. 1.54 crore as on March 31, 2022 vis-à-vis Rs 0.70 crore as on March 31, 2021. Other bank balances of Rs. 36.72 crore as on March 31, 2022 comprises of margin money and securities against borrowings, guarantees, etc. Liquidity is considered to be adequate as average utilization is at around 82% as stated above.

Analytical approach: Standalone

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Rating Methodology - Sugar Sector

About the Company
Godavari Biorefineries Limited (GBL) is incorporated in 1939 by late Mr. K.J. Somaiya and his son late Dr. Shantilal K Somaiya. As on March 31, 2022, Somaiya group holds 80.17% equity stake in the company through various entities. 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, distillery and an ethanol blending unit. Besides, the company also has a chemical unit to produce ethyl acetate at Sakarwadi, Maharashtra. 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	1,526.26	1,690.80	597.26
PBILDT	154.65	131.06	20.78
PBT	41.23	26.81	-6.96
PAT	24.56	16.33	NA
Overall gearing (times)	2.81	2.92	3.28
Interest coverage (times)	2.16	2.18	1.28

A: Audited; Prov.: Provisional; H1FY23 numbers not available with CARE; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit	-	-	-	-	75.00	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	291.00	CARE BBB; Stable
Fund-based - LT-Term Loan	-	-	-	March 2029	500.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	97.00	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	Non-fund-based - ST-BG/LC	ST	97.00	CARE A3+	-	1)CARE A3+ (19-Aug-21) 2)CARE A3 (07-Apr-21)	1)CARE A3 (03-Apr-20)	1)CARE A3 (05-Apr-19)
2	Fund-based - LT-Term Loan	LT	500.00	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)

3	Fund-based - LT-Cash Credit	LT	291.00	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)
4	Fixed Deposit	LT	75.00	CARE BBB; Stable	1)CARE BBB; Stable (22-Jun-22) 2)CARE BBB (FD); Stable (04-Apr-22)	1)CARE BBB (FD); Stable (19-Aug-21) 2)CARE BBB (FD); Positive (29-Apr-21) 3)CARE BBB (FD); Positive (07-Apr-21)	1)CARE BBB (FD); Stable (03-Apr-20)	1)CARE BBB (FD); Stable (05-Apr-19)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)

*Long term/Short term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. ICR	ICR to be at a minimum of 1.5x
2. Debt to EBITDA	Debt to EBITDA not to exceed 4.75x
B. Non-financial covenants	
1. Pledging of Shares	The company shall not without prior approval from bank pledge the shares held by the promoters, group beyond 10% of holdings, for raising any loan or for securitizing any loans or advances availed/to be availed by them from any bank/FI/ lender.
2. Amalgamation/reconstitution	The company shall not formulate any scheme of amalgamation/reconstitution without prior approval from the bank.
3. Capex	The company shall not undertake any new project/scheme without obtaining the Bank's prior consent unless the expenditure on such expansion etc. is covered by the borrower's net cash accruals after providing for dividends, investments, etc., or from long term funds received for financing such new projects or expansion.

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

Sr. No.	Name of 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

Annexure-5: Bank lender details for this company

To 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.

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About us:
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