Godavari Biorefineries Limited
August 19, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	654.08 (Enhanced from 634.08)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)
Short Term Bank Facilities	125.25 (Reduced from 145.25)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	**779.33 (Rs. Seven Hundred Seventy-Nine Crore and Thirty-Three Lakhs Only)**		
Fixed Deposit	60.00	CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]	Reaffirmed; Outlook revised from Positive
Total Medium-Term Instruments	**60.00 (Rs. Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Godavari Biorefineries Limited (GBL) factors in the improvement in the business risk profile of the company owing to increase in contribution from the high margin distillery and chemical segment resulting into further diversification of revenue stream for the company. This has led to an improvement in operating performance of the company characterised by increase in profitability, cash accruals as well as fast moving inventory cycle during FY21 (refers to the period from April 01 to March 31). The rating also factors in the uptick in the industry owing to supportive government policies for the industry. CARE believes that the company will continue to benefit from favourable trends in sugar industry and improve its operational performance in near term.

The ratings continue to derive strength from experienced promoters with long track record in the sugar industry as well as enjoying continued financial support from promoters (Somaiya Group), being a fully integrated sugar player, locational advantage, having steady scale of operation backed with well diversified revenue profile, and broad/reputed customer base.

However, the above strengths continue to be tempered by moderate debt coverage indicators and leveraged capital structure albeit improved on a y-o-y basis, project execution risk and profit margins susceptible to volatile raw material prices as well as being part of a regulated and cyclical sugar industry.

Rating Sensitivities

Positive Sensitivities

- Increase in PBILDT margins beyond 12% on account of better operational performance on a sustained basis
- Improvement in Total Debt to Gross Cash Accruals (TDGCA) below 4.00 times on account of reduction in debt level or improved operational performance on sustained basis
- Improvement in overall gearing 1.25x led by reduction in debt level and further increase in tangible net worth base on a sustained basis

Negative Sensitivities

- Lower than envisaged turnover and profitability margins leading to significant deterioration in cash accruals
- Delay in tie up of debt and execution and stabilization of capex as envisaged.
- Lower than envisaged improvement in gearing levels and elongation in operating cycle.

Key Rating Strengths

Strong promoter group along with 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 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.

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 35.15% (P.Y~31.35%) of revenue from chemical, followed by sugar contributing 32.31% (P.Y.~43.25%), ethanol contributing around 29.89% (P.Y.~22.54%) and remaining from power. Thus, GBL's non sugar revenue is around 68% in FY21 as compared to 57% in FY20. The increase in revenue is from the ethanol and chemical division. Going forward, contribution from distillery (ethanol) division is expected to increase as GBL is increasing its focus on ethanol production as the division has higher operating margins backed by fast moving nature of the product.

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 gross recovery rate from sugarcane increased to 11.40% in FY21 from 11.10% in FY20.

Broad and reputed clientele base
The company has a broad customer base with top ten customers contributing 24.39% of the total sales in FY21 vis-à-vis 47.98% to the total sales in FY20. GBL also exports its products. However, India is still the highest contributor and contributed 78.18% to the revenue in FY21. 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).

Steady scale of operation coupled with improvement in profit margins
During FY21, GBL's total income reflected improvement of 5.49% and stood at Rs. 1,529.09 crore vis-à-vis Rs. 1,449.48 crore in FY20 owing to higher quantity of sugarcane crushed i.e. 20,02,849 MT of sugar crushed in FY21 vis-à-vis 15,26,610 MT of sugar crushed in FY20. The company's PBILDT margins improved from 7.24% in FY20 to 10.30% in FY21 on account of increase in contribution from ethanol and chemical segments. This has also improved gross cash accruals generated by the company on a y-o-y basis. Furthermore, the company has reported sales of Rs. 428.00 crore in Q1FY22 vis-à-vis Rs. 339.00 crore in Q1FY21 reflecting y-o-y growth of 26.26%. This is also on account of increase in contribution from the Ethanol segment. Besides, the company's tangible net worth base improved from Rs. 196.47 crore as on March 31, 2020 to Rs. 220.62 crore as on March 31, 2021 on the back of accretion of profits to reserves.

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 a 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.

Improvement in operating cycle however the operations remain working capital intensive
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 increase over the sugar production cycle, thereby warranting high level of inventory during year end. However, operating cycle improved significantly to 46 days in FY21 as compared to 66 days in FY20 mainly on account of reduction in inventory days as company's sugar stock is less on account of its conscious decision to divert production from sugar to ethanol. Going forward, the company is projecting further decrease in its working capital requirement. Also, the average utilization of its working capital limits stood at 75.99% during past twelve months ending June 2021.

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) are also regulated by GOI. Thus, sugar companies do not have much control over all these factors which significantly affect the economics of their operations.

Leveraged capital structure

The overall gearing of the company improved to 2.80x as on March 31, 2021 vis-à-vis 3.23x as on March 31, 2020 on account of decline in debt level led by decrease in working capital bank borrowings partial repayment of various term loans coupled with improvement in the tangible net worth base in FY21 as compared to FY20. However, despite the improvement, the capital structure stood leveraged. The company's working capital requirement is reduced on account of company's conscious decision to divert its sugar production to ethanol production. Ethanol moves faster than sugar and has lesser inventory days and in turn decreases working capital requirement. Going forward, GBL's capital structure will continue to be characterised by controlled debt. 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.

Moderate debt coverage indicators

Debt coverage indicators marked by total debt to gross cash accruals improved significantly to 7.01x in FY21 vis-à-vis 13.69x in FY20 on account of decline in debt level and improvement of 89.799% in cash accruals in FY21 over FY20. The company has reduced its short-term debt and the same is funded by equivalent amount of long-term debt. This has improved the liquidity in short term for the company. Furthermore, the interest coverage ratio has also improved from 1.54x in FY20 to 2.20x in FY21 owing to improvement in operating profitability. However, the debt coverage indicators stood moderate.

Project Implementation risk

The company is planning a capex of Rs 184.16 for undertaking ethanol expansion programme and other projects. Out of the same, Rs. 22.39 crore and Rs. 23.50 crore in FY22 and FY23 is towards normal capex. The estimated project cost is Rs. 138.27 crore which will be funded through Rs. 98 crore of term debt (loan of Rs. 75 crore and of Rs. 23.00 crore) and rest through internal accruals. The company has successfully implemented 200 KLPD to 320 KLPD in FY20 and 320 KLPD to 400 KLPD in FY21. The company has initiated the further ethanol expansion from 400 KLPD to 600 KLPD under ethanol blending program. The same is expected to commence from November 2022. GBL has initiated the installation of a new boiler for the chemical division and it is expected to commence from March 2022.

Boiler loan is sanctioned however loan with respect to ethanol expansion is yet to be sanctioned. Thus project risk prevails for GBL in case of delay in tie up of debt and execution and stabilization of capex as envisaged.

Despite size of the project being around 62% of its net-worth (ie Rs.220.62 crore) as on March 31, 2021, the project implementation risk is considered to be moderate on account of the successful track record of the management to implement such large projects in the past and this being an expansion project in a similar line of business.

Liquidity: Adequate

Liquidity is marked by healthy gross cash accruals being generated as compared to past few years. The company's average fund-based utilization for past twelve months ending June 2021 stood at 75.99% against the sanctioned fund-based limits. Also, cash flow from operating activities remained positive at Rs. 137.33 crore in FY21. The investment in net working capital as a percentage of total capital employed stood at 54.19% as on March 31, 2021 vis-à-vis 54.88% as on March 31, 2020.

Analytical approach: Standalone. Also, support from strong promoter group (Somaiya 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
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, 2021, 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 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)	FY20 (A)	FY21 (A)
Total operating income	1,449.48	1,529.09
PBILDT	104.93	157.48
PAT	2.53	24.56
Overall gearing (times)	3.25	2.82
Interest coverage (times)	1.54	2.20

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: 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	-	-	-	125.25	CARE A3+
Fund-based - LT-Term Loan	-	-	March 2029	356.08	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	298.00	CARE BBB; Stable
Fixed Deposit	-	-	-	60.00	CARE BBB (FD); 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 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	125.25	CARE A3+	1)CARE A3 (07-Apr-21)	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	356.08	CARE BBB; Stable	1)CARE BBB-; Positive (07-Apr-21)	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	298.00	CARE BBB; Stable	1)CARE BBB-; Positive	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable	1)CARE BBB-; Negative

					(07-Apr-21)		(05-Apr-19)	(05-Apr-18)
4.	Fixed Deposit	LT	60.00	CARE BBB (FD); Stable	1)CARE BBB (FD); Positive (29-Apr-21) 2)CARE BBB (FD); Positive (07-Apr-21)	1)CARE BBB (FD); Stable (03-Apr-20)	1)CARE BBB (FD); Stable (05-Apr-19)	1)CARE BBB (FD); Negative (05-Apr-18)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)

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 in FY21
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 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.*

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