Godavari Biorefineries Limited

October 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	790.94	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	97.00	CARE A3+	Reaffirmed
Fixed deposit	85.00 (Enhanced from 75.00)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Godavari Biorefineries Limited (GBL) continues to derive comfort from the strong promoter group along with the long-standing track record in the sugar industry. It also factors in the fully-integrated sugar producing unit, the diversified revenue profile, the locational advantage along with the company's established relationships with farmers.

The reaffirmation of the ratings considers the improvement in the performance of the sugar and distillery divisions in FY23 as compared to FY22. The performance of the chemical division remained subdued in FY23 due to the subdued demand scenario in the exports market and the decline in the prices of chemicals. With no further major capex planned in the near to medium term and with the enhanced production of sugar and ethanol in the upcoming sugar season, the overall performance is expected to improve in FY24.

The company had replaced its boiler and turbine, leading to improved efficiency of the plants and a reduction in coal cost. The commencement of the multi-purpose plant adding three to four specialty chemicals will lead to an improvement in profitability for the chemical division.

However, the above strengths continue to be tempered by the moderation in profit margins in FY23 due to the subdued performance in the biochemicals division, the leveraged capital structure and moderate debt coverage indicators. Furthermore, the ratings are also constrained due to the working capital-intensive nature of operations, the vulnerability of operations to agro-climatic conditions and the profit margins susceptible to volatile raw material prices as well due to being part of a seasonal, regulated, and cyclical sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) and profit-after-tax (PAT) margins exceeding 13% and 5.50%, respectively, on a sustained basis.
- Improvement in the total debt (TD)/gross cash accruals (GCA) below 4.00x on account of a reduction in the debt level or improved operational performance on a sustained basis.
- Improvement in the overall gearing to approximately 1.25x, led by a reduction in the debt level, and a further increase in the tangible net worth (TNW) base on a sustained basis.

Negative factors

- Significant deterioration in the overall gearing to around 3.50x.
- Sizeable deterioration in terms of profitability and cash accruals as compared to the envisaged levels, leading to deterioration in the debt coverage indicators and liquidity.
- Significant elongation in the operating cycle, resulting in higher utilisation of the working capital limits.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a consolidated view of GBL, since all the subsidiaries are in a similar line of business and there are operational and financial linkages. Refer to Annexure-6 for the list of subsidiaries consolidated.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that the company is likely to improve its overall in performance in FY24 while continuing its satisfactory financial risk profile. The successful completion and implementation of the projects are expected to bring down the company's operating costs and improve profitability in FY24.

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

Detailed description of the key rating drivers

Key strengths

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

GBL belongs to the Somaiya group. The Somaiya group is among the oldest and well-established industrial houses in India and has diversified interests in sugar and its allied products, alcohol and bulk organic chemicals, specialty chemicals, renewable energy, printing and publishing, education, hospital, and social welfare. The Mumbai-based group runs a hospital, non-governmental organisations (NGOs), and various educational institutes across various parts of Mumbai. The promoters have time and again extended financial support to the company in the past. GBL was established by the late KJ Somaiya in the year 1939 as 'The Godavari Sugar Mills Limited' and is currently managed by his grandson, Samir Somaiya (Chairman and Managing Director). The company has more than eight decades of track record in the sugar industry. It is currently managed by a 10-members board having extensive experience and is supported by a team of eminent and well-qualified professionals from relevant fields.

Locational advantage

The company has a sugarcane crushing facility at Sameerwadi, Karnataka, along with a distillery and co-generation power plant. It also has another manufacturing plant engaged in the production of chemical products at Sakarwadi, Maharashtra. The sugarcane procured from Maharashtra and Karnataka have higher recovery than those procured from other regions of India, thus providing companies with manufacturing facilities in these regions better operational benefits. The net recovery rate from sugarcane declined slightly to 6.80% in FY23 vis-à-vis 7.43% in FY22. Thus, the location of the sugar plant is considered to be favourable on account of the region being a sugarcane-producing one and it facilitates the consistent and abundant availability of sugarcane for sugar and allied manufacturing activities.

Fully integrated sugar producing unit with a diversified revenue profile

GBL operates a fully integrated sugar plant with a capacity to crush around 18,000 tonne per day (TPD), a co-generation plant with a capacity of generating 45.56 megawatt hour (MWH), and a distillery of 600 kilolitre per day (KLPD). The revenue profile is well diversified, characterised by its presence in the production of sugar, ethanol, power, and chemicals. GBL derives around 32% (PY: 38.06%) of revenue from chemicals, 34% from sugar (PY: 30.78%), 32% from ethanol (PY: 29.02%), and the remaining from power.

Growth in scale of operations

During FY23, GBL's total income reflected an improvement of 18.35% and stood at ₹2,015 crore vis-à-vis ₹1,702 crore in FY22, owing to higher sales derived from the sugar division, power division, followed by distillery, and partly from the chemical division.

Key weaknesses

Moderation in profit margins in FY23; expected to improve in FY24

The profitability (PBILDT) margin of GBL moderated in FY23 and stood at 7.29% in FY23 vis-à-vis 7.91% in FY22. The company has not been able to achieve the profitability margin as envisaged. The deterioration in the overall profitability margin is attributed to the losses in the chemicals division, in turn, attributed to the weak demand and the low prices for acetic acid in the European market on account of the Ukraine-Russian war. GBL was also faced with high fuel costs for operating the boiler in the chemical division due to the surge in coal prices during FY23, while being compelled to purchase raw materials (such as ethyl acetate) at higher than prevailing market rates due to the long-term volume contracts. As a result of the same, the company reported a net loss of ₹25.66 crore in Q1FY24 vis-à-vis a net loss of ₹6.96 crore in Q1FY23.

In FY24, the company is expected to earn around ₹25 crore at the PBILDT level from the chemicals division. The long-term sourcing contract of acetic acid expired in June 2023. The sale of specialty chemicals is expected to contribute to the improved profits. Furthermore, the company's initiative to set up a pelleting plant for sugarcane 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. The installation of a 10-MWH turbine for distillery, which commenced in May 2023, and boiler and turbine for chemical operations, which commenced in the last quarter of FY23, will reduce the energy costs, thereby improving the profitability margins, going forward. This, coupled with the scale of economies from capacity enhancements undertaken (increase in cane crushing capacity from 15,000 tonne crushed per day (TCD) to 18,000 TCD and distillery capacity from 400 KLPD to 600 KLPD), are expected to support the improvement in margins. Hence, going forward, the achievement of the envisaged profit margins is crucial from the credit perspective.

Leveraged capital structure and moderate debt coverage indicators

The overall gearing of the company deteriorated marginally to 3.04x as on March 31, 2023, vis-à-vis 2.91x as on March 31, 2022, on account of an increase in the debt level, led by an increase in the term debt and an increase in the public deposits availed. 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 in a deterioration in the financial risk profile will remain a key rating sensitivity factor.

The debt coverage indicators, marked by TD/GCA deteriorated to 9.55x as on March 31, 2023, vis-à-vis 8.89x as on March 31, 2022, on account of an increase in the debt level and a decline in the cash accruals in FY23 over FY22. Furthermore, the interest coverage ratio (ICR) also weakened slightly to 2.02x in FY23 vis-à-vis 2.23x in FY22 owing to higher interest cost. However, on an overall basis, the debt coverage indicators were maintained at a moderate in FY23.

Working capital-intensive operations

GBL's business is a working capital-intensive business because of the seasonality of the agriculture business. The company needs to procure inventory from farmers during the harvesting period. Being a well-established and among the major sugar producers in the region, GBL is able to get sugarcane from the farmers in abundance along with a good credit period, post which, the company makes payments in a phased and regular manner to the farmers. Besides, GBL exports products on an advance basis and the collection period for the domestic sale of sugar to institutional customers and the sale of ethanol to Oil Marketing Companies (OMCs) is steady at around 30 days. The company needs to maintain inventory to offer the steady supply of sugar as per the requirements of institutional customers and the retail market throughout the year, and with the prices of sugar gradually increasing over the sugar production cycle, it warrants a high level of inventory during the year-end. The average utilisation of the company's working capital limits stood at 68.71% during the last 12 months ending August 31, 2023.

Project implementation and stabilisation risk

The company had a planned capex for undertaking the ethanol expansion programme involving a total outlay of ₹211.00 crore (for undertaking capex towards ethanol expansion, which has increased the capacity from 400 KLPD to 600 KLPD) under the ethanol blending programme, increasing the sugar crushing capacity from 15,000 TCD to 18,000 TCD, and boiler installation. Over FY21-FY23, incremental term loans of around ₹350.00 crore were availed to fund the capex. The stabilisation remains crucial, and therefore, the contribution from the same in the current sugar season 2024 remains to be seen and any underachievement of the same is a key rating monitorable. Going forward, no significant capex has been planned in the coming years.

Seasonal, cyclical, and regulated nature of the 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 Ratings notes that while the gross recovery rates for GBL have been at around 11.70% for the period ended March 31, 2023, the higher recovery rates lead to a reduction in the cost of production of sugar, thus supporting the margins.

The industry is cyclical by nature and is vulnerable to 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 and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of sugar companies. Hence, the company's performance can be impacted by a disproportionate increase in cane prices in any particular year. Furthermore, the profitability remains vulnerable to the government's policies on exports, minimum support price (MSP), and remunerative ethanol prices. However, healthy exports and a higher diversion of sucrose towards ethanol in the recent past has resulted in favorable demand-supply dynamics in the country, thus resulting in improved realisations.

Liquidity: Adequate

The company had a principal debt repayment obligation of ₹62 crore in FY24 and the cash accruals is expected to be adequate. The company's average fund-based utilisation for the last 12 months ending August 31, 2023, for its limits of ₹276.00 crore stood at 68.71% and provides some liquidity backup. The net cash flow from operating activities remained positive at ₹179 crore in FY23 vis-à-vis the positive cash flow from operations at ₹42 crore in FY22. The current ratio remained low at 1.05x in FY23. The free cash and bank balance stood at ₹0.63 crore as on March 31, 2023, vis-à-vis ₹1.54 crore as on March 31, 2022. The other bank balances of ₹23.51 crore as on March 31, 2023, comprises margin money and securities against borrowings, guarantees, etc.

Applicable criteria

Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios - Non-Financial Sector
Short Term Instruments
Sugar
CARE Ratings' criteria on consolidation & combined approach

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural food and other products	Sugar

GBL was incorporated in 1939 by the late KJ Somaiya and his son, the late Dr. Shantilal K Somaiya. As on March 31, 2023, the 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. Its chemicals division exports ethyl acetate to the Middle East, Africa, and European countries. The company has an in-house retail brand 'Jivana' for the sale of sugar, turmeric, and salt in the states of Rajasthan Maharashtra, Karnataka, and Gujarat.

Consolidated financials of GBL

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	Q1FY24 (Prov.)
Total operating income	1702.33	2014.69	433.06
PBILDT	134.65	146.96	7.76
PAT	19.46	19.27	-25.66
Overall gearing (times)	2.91	3.04	3.31
Interest coverage (times)	2.23	2.02	0.42

A: Audited; Prov.: Provisional. Note: The above results are the latest financial results 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 Ratings: Not applicable

Disclosure of interest of the Managing Director & CEO: Not applicable

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

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	85.00	CARE BBB; Stable
Fund-based - LT-Cash credit	-	-	-	-	276.00	CARE BBB; Stable
Fund-based - LT-Term loan	-	-	-	March 2033	514.94	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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	97.00	CARE A3+	1)CARE A3+ (09-Oct-23)	1)CARE A3+ (09-Nov-22)	1)CARE A3+ (19-Aug-21) 2)CARE A3 (07-Apr-21)	1)CARE A3 (03-Apr-20)
2	Fund-based - LT-Term loan	LT	514.94	CARE BBB; Stable	1)CARE BBB; Stable (09-Oct-23)	1)CARE BBB; Stable (09-Nov-22)	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)
3	Fund-based - LT-Cash credit	LT	276.00	CARE BBB; Stable	1)CARE BBB; Stable (09-Oct-23)	1)CARE BBB; Stable (09-Nov-22)	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)
4	Fixed deposit	LT	85.00	CARE BBB; Stable	1)CARE BBB; Stable (09-Oct-23)	1)CARE BBB; Stable (09-Nov-22) 2)CARE BBB; Stable (22-Jun-22) 3)CARE BBB (FD); Stable	1)CARE BBB (FD); Stable (19-Aug-21) 2)CARE BBB (FD); Positive (29-Apr-21) 3)CARE BBB (FD); Positive	1)CARE BBB (FD); Stable (03-Apr-20)

						(04-Apr-22)	(07-Apr-21)	
5	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (03-Apr-20)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6 List of companies consolidated with GBL

As on March 31, 2023, GBL has four (direct and indirect) subsidiaries (one in India and three overseas). The list of entities consolidated, as on March 31, 2023, are as below

Name of Entity	Extent of Shareholding
Solar Magic Private Limited	Wholly owned Indian subsidiary
Cayuga Investments B.V.	Wholly owned overseas subsidiary
Godavari Biorefineries B.V., Netherlands	Step down overseas subsidiary being wholly owned subsidiary of Cayuga Investment B.V
Godavari Biorefineries Inc., USA	Step down overseas Subsidiary being wholly owned subsidiary of Cayuga Investment B.V

Note on the 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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