Godavari Biorefineries Limited (Revised)

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	790.94 (Reduced from 791.00)	CARE BBB; Stable	Reaffirmed
Short Term Bank Facilities	97.00	CARE A3+	Reaffirmed
Fixed Deposit	75.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 established relationship with the farmers.

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

The company had replaced the boiler and turbine leading to improved efficiency of the plant and reduction in coal cost. Commencement of the multi-purpose plant adding 3 to 4 specialty chemicals, would lead to improvement in profitability for the chemical division.

However, the above strengths continue to be tempered by moderation in profit margins in FY23 due to subdued performance in the biochemicals division, leveraged capital structure and moderate debt coverage indicators, 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 seasonal, regulated and cyclical sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the PBILDT and PAT margins exceeding 13% and 5.50% 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 to~1.25x led by reduction in debt level and further increase in tangible net worth base on a sustained basis.

Negative factors

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

Analytical approach: Consolidated

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

Outlook: Stable

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

Detailed description of the key rating drivers

Key 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 a hospital, NGOs and various educational institutes across various parts of Mumbai.

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

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.

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 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 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 18,000 tonne per day (TPD), a co-gen plant with capacity of generating 45.56 MWH and a distillery of 600 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 32% (PY:38.06%) of revenue from chemical, 34% from sugar (PY: 30.78%), 32% from ethanol 32% (PY: 29.02%) and remaining from power.

Growth in scale of operation
During FY23, GBL's total income reflected an improvement of 18.35% and stood at Rs. 2015 crore vis-à-vis Rs. 1702 crore in FY22 owing to higher sales derived from the sugar division, power division, followed by distillery and partly from chemical division.

Key weaknesses

Moderation in profit margins in FY23; expected to improve in FY24
The profitability (PBILDT) margins 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 margins as envisaged. The deterioration in overall profitability margins is attributed to losses in the chemical division in turn attributed to weak demand and low prices for acetic acid in the European market on account of the Ukraine-Russian war. The company was also faced with high fuel costs for operating the boiler in the chemical division due to 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 long term volume contracts. As a result of the same, the company has reported a net loss of Rs. 25.66 crore in Q1FY24 vis-à-vis net loss of Rs. 6.96 crore in Q1FY23.
In FY24, the company is expected to earn around Rs. 25 crores at the PBILDT level from this division. The long-term sourcing contract of acetic acid expired in June 2023. The improved profit is expected to be contributed from the sale of specialty chemicals. Further, the company's initiative to set 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. The installation of 10MWH turbine for distillery which commenced in May 2023, and boiler and turbine for chemical operations which has commenced in the last quarter of FY23, would reduce the energy costs thereby improving the profitability margins, going forward. This coupled with scale economies from capacity enhancements undertaken (increase in cane crushing capacity from 15,000 TCD to 18,000 TCD and distillery capacity from 400 KLPD to 600 KLPD is expected to support the improvement in margins. Hence, going forward, achievement of profit margins as envisaged 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 increase in debt level led by increase in term debt and increase in public deposits availed. Going forward, GBL's capital structure will continue to be characterized by controlled debt. Any growth plans resulting in a sizeable term debt being availed and resulting in deterioration in the financial risk profile shall remain a key rating sensitivity factor.
Debt coverage indicators marked by total debt to gross cash accruals deteriorated to 9.55x as on Mar 31, 2023 vis-à-vis 8.89x as on March 31, 2022 on account of increase in debt level and decline in cash accruals in FY23 over FY22. Furthermore, the interest coverage ratio also weakened slightly to 2.02x in FY23 vis-à-vis 2.23x in FY22 owing to higher interest cost. However, on 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 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 post 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 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, 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 68.71% during past twelve months ending August 31, 2023.

Project implementation and stabilization risk
The company had planned capex for undertaking ethanol expansion programme involving total outlay of Rs. 211.00 crore (for undertaking capex towards ethanol expansion which has increased the capacity from 400 KLPD to 600 KLPD under ethanol blending program, increase in sugar crushing capacity from 15000 TCD to 18000 TCD (Tonnes crushed Per Day) and boiler installation. Over FY21-FY23, incremental term loans of around Rs. 350.00 crore were availed to fund the capex. Stabilization 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 key rating monitorable. Going forward, no significant capex is being planned in the next couple of years.

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 gross recovery rates for GBL has been at around 11.70% for period ended March 31, 2023. Higher recovery rates lead to a reduction in cost of production of sugar thus supporting 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 & 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 a 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 favorable demand-supply dynamics in the country, thus resulting in improved realizations.

Liquidity: Adequate
The company had principal debt repayment obligation of Rs. 62.00 crore in FY24 and cash accruals is expected to be adequate. The company's average fund-based utilization for past 12 months ending August 2023 for its limits of Rs. 276.00 crore stood at 68.71% and provides some liquidity backup. Net cash flow from operating activities remained positive at Rs. 179.00 crore in FY23 vis-à-vis positive cash flow from operation at Rs. 42.00 crore in FY22. Current ratio remained low at 1.05 times in FY23. Free cash and bank balance stood at Rs. 0.63 crore as on Mar 31, 2023 vis-à-vis Rs. 1.54 crore as on March 31, 2022. Other bank balances of Rs. 23.51 crore as on March 31, 2023 comprises of 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
Rating Methodology - Sugar Sector
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 & other Products	Sugar

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, 2023, 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.

Consolidated financials of Godavari Biorefineries Limited

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Prov.)	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 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: Not applicable

Disclosure of Interest of 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 various instruments rated for this company: 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	-	-	-	-	75.00	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-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	1)CARE BBB; Stable	1)CARE BBB-; Stable (03-Apr-20)

						(09-Nov-22)	(19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	
3	Fund-based - LT-Cash Credit	LT	276.00	CARE BBB; Stable	-	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	75.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Nov-22) 2)CARE BBB; Stable (22-Jun-22) 3)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)
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 31st March, 2023, GBL has four (direct and indirect) subsidiaries (one in India and three overseas). As on March 31, 2023, list of entities consolidated are as below.

Name of entities	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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