Goyal Agro Processing

May 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	19.69 (Enhanced from 9.75)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**19.69 (Rs. Nineteen Crore and Sixty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Goyal Agro Processing continues to be constrained by small though growing scale of operations with low profitability margins and moderate capital structure and weak debt coverage indicators. The rating is further constrained by vulnerability of margins to fluctuations in the prices of raw material, partnership nature of the constitution and competitive and fragmented nature of the edible oil industry. The rating, however, derives strength from experienced partners, and favourable geographical structure

Rating Sensitivities

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

- Sustainable improvement in the PBILDT and PAT margins over 3% and 2%, respectively, in the medium term.
- Improvement in the overall solvency below 0.50x on sustained basis.
- Improvement in scale of operations to Rs. 300 crore on sustained basis.

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

- Deterioration in scale of operations with TOI below Rs. 80 crores.
- Deterioration in operating cycle above 60 days on a sustainable basis.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Weaknesses

Small, though growing scale of operations with low profitability margins: GAP's scale of operations stood small as marked by total operating income of Rs.88.27 crore and gross cash accruals of Rs.0.38 crore respectively, during FY21 as against Rs.65.96 crore and Rs.0.30 crore respectively in FY20. Though, the risk is partially mitigated by the fact that the scale of operation is growing continuously, small scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits. For the period FY19-FY21, GAP's total operating income grew from Rs.41.89 crore to Rs.88.27 crore reflecting a compounded annual growth rate (CAGR) of 28.20%. Further, the firm has achieved total operating income of Rs.266.05 crore during 11MFY22 (refers to the period from April 1, 2021 to February 28, 2022; based on provisional results). In FY22 the firm also started trading in jute bags along with selling rice bran oil which leads to improvement in scale of operations. Out of total sale, Rs 192.69 crore is on account of jute bags. The profitability margins of the firm continued to remain low in FY21 as marked by PBILDT margin of 1.03% (PY: 1.52%) and PAT margin of 0.39% (PY: 0.41%) on account of higher material cost. During 11MFY22 the PBILDT margin moderated to 0.90% though PAT margins improved to 0.76%.

Moderate capital structure and weak debt coverage indicators: The capital structure of the firm stood moderate as marked by overall gearing ratio which stood at 2.50x as on March 31, 2021, showing marginal improvement from 2.91x as on March 31, 2020 primarily on account of acceleration of profit to reserves and lower total debt level of the firm as on balance sheet date on account of regular repayments. During 11MFY22 the overall gearing further improved to 0.59x on account of increase in profitability levels leading to improvement in net worth and lower working capital utilization as on balance sheet date. Furthermore, owing to low profitability levels the debt coverage indicators remain weak though improve as marked by total Debt to GCA improved from 21.83x in March 31, 2020 as compared to 14.82x as on March 31, 2021. As on February 28th, 2022 the total debt to GCA improved further to 1.21x. The Interest coverage ratio also improved marginally from 1.41x as on March 31, 2020 to 1.71x as on March 31, 2021. As on February 28th, 2022 the Interest coverage ratio further improved to 7.05x.

Competitive and fragmented nature of the edible oil industry: Low barriers to entry have resulted in highly fragmented nature of the edible oil industry. Furthermore, most of the players offer similar products with minimal differentiation. Intense competition leads to price war resulting in lower margins for most of the players. Furthermore, despite having better health

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

benefits and priced much less than any other edible oils, rice bran oil industry faces tough competition because of the presence of several close substitute products in market. Olive oil, copra, and palm oil are slotted as main substitute of rice bran oil posing serious threat to the profit margin of the players operating in rice bran oil segment.

Vulnerability of margins to fluctuations in the prices of raw material: The main raw material for production of rice bran oil is rice bran. The prices of rice bran are volatile on account of various factors like government policies viz. minimum support price, irregularity of monsoon leading to unpredictable yields etc. Since the product manufactured by GAP faces high degree of competition from other small and unorganized players which restricts GAP's ability to fully pass on the volatile material cost to its customers. Thus, GAP's profitability remains susceptible to risk associated with volatility in prices of raw material.

Constitution of the entity being a partnership firm: GAP's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factor affecting credit decision of the lenders. In FY21, the firm has withdrawn Rs 0.34 crore from capital.

Key Rating Strengths

Favourable Geographical location: GAP'S unit is located in Sangrur, Punjab which is one of the hub for rice industry. The firm benefits from location advantage in terms of easy availability of raw material. Additionally, raw materials required in manufacturing of oil are readily available owing to established supplier base in the same location. Moreover, the firm has diversified customer base which, in turn, improves the bargaining capacity of the firm and enhances the image of the firm in the market and lends supports to the quality of its products/services.

Experienced Promoters: GAP was established by Mr. Vishal Goyal and Mr. Puneet Goyal as its partners. Mr. Vishal Goyal and Mr. Puneet Goyal have an industry experience of around 16 years and 8 years respectively gained through their association with GAP and other regional entity engaged in similar business operations. Both partners look after the overall operations of the firm. The Partners have been in the industry for a long time which will aid in establishing a healthy relationship with their suppliers and customers.

Liquidity: Adequate

The firm utilizes its working capital limits fully for procurement during the season and brings down the utilization to almost nil during offseason which results in average utilization of working capital limits to around 50% for the past 12-month period ended March 2022. In FY23, the firm is expected to envisage GCA of Rs 2.10 crores (approx.) against the term debt obligation of Rs 0.22 crores in same year. However, the firm has low free cash & bank balance of Rs. 0.05 crores as on May 15th, 2022. Further, the firm has low current and quick ratios of 1.29x and 0.41x, respectively, as on March 31, 2021.

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
- Policy on Withdrawal of ratings
- Wholesale Trading
- Manufacturing Companies

About the Company

Goyal Agro Processing (GAP) was established as a partnership firm in September 2018. However, the commercial operation started in November 2018. The firm is currently being managed by two partners Mr. Vishal Goyal and Mr. Puneet Goyal. The firm is engaged in the extraction of crude rice bran oil & rice bran deoiled cake, solvent mustard oil & mustard deoiled cake. The firm's processing facility is based at Sunam, Punjab with an installed solvent extraction capacity of 65 metric tonnes of crude oil and 375 metric tonnes of deoiled cake per day as on April 30, 2022. The firm sells its products i.e. crude rice bran oil & rice bran deoiled cake and mustard oil & mustard deoiled cake to the dealers based in Punjab, Haryana, Rajasthan, Gujarat and Maharashtra. The raw material required for extraction is rice bran, phuck and mustard cake which is mainly procured from dealers based in Punjab, Haryana and Rajasthan. In FY22, the firm also started trading of jute bags.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22(P)
Total operating income	65.96	88.27	266.05
PBILDT	1.00	0.91	2.40
PAT	0.27	0.35	2.04
Overall gearing (times)	2.91	2.50	0.59
Interest coverage (times)	1.41	1.71	7.05

A: Audited; P: Provisional

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: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	19.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	May 2024	0.69	CARE B+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	19.00	CARE B+; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (21-Mar-22)	1)CARE B+; Stable (18-Jan-21)	1)CARE B+; Stable (22-Oct-19)
2	Fund-based - LT-Term Loan	LT	0.69	CARE B+; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (21-Mar-22)	1)CARE B+; Stable (18-Jan-21)	1)CARE B+; Stable (22-Oct-19)
3	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (21-Mar-22)	1)CARE A4 (18-Jan-21)	1)CARE A4 (22-Oct-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Working Capital Limits	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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