Godavari Biorefineries Limited

April 03, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities (Term Loan)	337.53 (enhanced from 250.00)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Long Term Bank Facilities (Fund Based)	295.20 (reduced from 400.00)	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Short Term Bank Facilities (Non-Fund Based)	146.60 (reduced from 148.00)	CARE A3 [A Three]	Reaffirmed
Total	**779.33 (Rs. Seven Hundred Seventy Nine crore and Thirty Three Lakh only)**		
Fixed Deposit Programme	40.00* (Forty crore only)	CARE BBB (FD); Stable [Triple B (fixed deposit); Outlook: Stable]	Reaffirmed
Non-Convertible Debenture Issue	-	-	Withdrawn#

**Outstanding Rs.23.33 crore as on March 31, 2019*
#withdrawn as the same is fully redeemed
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Godavari Biorefineries Limited (GBL) is on account of financially strong promoters (Somaiya Group) with company's long track record in the sugar industry, fully integrated sugar producing unit, locational advantage, well diversified customer base as well as reduction in inventory days resulting in improvement in operating cycle.

These strengths are offset by high overall gearing and moderate debt coverage indicators. The promoters infused equity capital in FY19 as well in 9MFY20 resulting in significant improvement in overall gearing. However, the gearing levels are still high with high working capital utilization. The ratings are also constrained by cyclical nature of the sugar industry as well as raw material price fluctuation risk.

Key rating sensitivities- Company's ability to improve its capital structure and debt coverage indicators while maintaining its profitability margins remains a challenge from credit perspective.

Positive Sensitivities

- Increase in PBILDT margins on account of better operational performance on a sustained basis resulting in improved gearing levels and debt coverage indicators
- Sustenance of operating cycle at current levels

Negative Sensitives

- Reduced profitability resulting from cyclicality of business and lower contribution from distillery and chemicals businesses.
- Increase in overall gearing on a continued basis on account of reduced cash accruals or debt funded capex

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and long standing track record in sugar industry

GBL has strong parentage of Somaiya group. 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 promoters have continued their support towards GBL during the past and are committed to sustain the same in the future.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Fully Integrated sugar producing unit with diversified product portfolio
GBL's revenue is mostly contributed by its sugar division with contribution of 41.42% to its total sales in FY19 as compared to 44.77% in FY18. However, sugar industry is highly cyclical with its concentrated mainly in the months of December to March. Company has diversified into related businesses such as distillery, co-generation power and chemicals, mitigating the risk and forming fully integrated sugar producing industry. Contribution from distillery division is increasing on account of its ethanol blending program. Contribution from distillery division has increased to 16.90% in FY19 as compared to 12.70% in FY18 to the total sales.

Locational advantage
The company has facilities located in Maharashtra and Karnataka which are sugarcane growing region. Sugarcane of Maharashtra and Karnataka has higher recovery than cane in other regions of India which provide companies with manufacturing facilities in this region better operational benefits. The recovery rate from sugarcane improved to 11.92% in FY19 from 10.96% in FY18.

Well diversified customer base
GBL has a well-diversified customer base with top 10 customers contributing only 35.87% to the total sales in FY19. Company is also into exports of its products. However, India is still the highest contributor with 77.48% to its revenue in FY19. Also, company's customers include wholesale customers who have better repayment terms. A well-diversified customer and geographical base prevents the company from any possible customer concentration risk. Company also has Power Purchase Agreement (PPAs) with DISCOMs for its Power segment. Further, for distillery division, company has annual contracts with OMCs (Oil Marketing Companies).

Key rating weakness
Leveraged capital structure albeit improvement in gearing levels
GBL's capital structure is highly leveraged with high gearing levels. Overall gearing of the company is high at 6.16x as on March 31, 2019 although improved from 8.81x as on March 31, 2018. Improvement in gearing level is on account of infusion Rs.16.61 crore in FY19 as equity and reduction in working capital utilization. Gearing level further improved to 3.53x as on January 31, 2020 on account of further equity infusion of Rs.64.21 crore by the promoters and repayment of Rs.65 crore of NCDs coupled with reduction in working capital utilization.

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 flow and availability 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.

Working capital intensive operations however improvement in operating cycle
GBL's business is a working capital intensive business on account 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, working capital cycle has decreased considerably to 95 days in FY19 as compared to 147 days in FY18. The improvement is operating cycle is on account of decrease in inventory days to 154 days in FY19 from 184 days in FY18. Inventory days have reduced because company has stored less stock of sugar at year end on account of its conscious decision to divert production from sugar to ethanol under its Ethanol blending program.

Analytical approach: Standalone. Also, support from strong promoter group is taken into consideration.

Liquidity Analysis:
Moderate
Company registered a GCA of Rs. 52.35 crore in FY19 against repayment obligation of Rs. 14.22 crore and Rs.38.05 crore in FY20 and FY21 respectively. Company's liquidity profile is constrained on account of the cyclical nature of the sugar industry. Also, company has short term of Rs337.08 crore as on March 31, 2019 and Rs.234.18 crore as on January 31, 2020. Historically, company has always rolled over this short term loan and at present, the company is in the process of converting this short term loan into long term loan. Company's average fund based utilization for past 12 months ending on January 2020 is high 85.21%. Also, company enjoys support from strong promoter group, which has been historically demonstrated time and again via equity infusion.

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]
[Consolidation and Factoring linkages in ratings]

Company Background
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.
Standalone

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1221.36	1548.41
PBILDT	105.88	134.38
PAT	(21.12)	2.18
Overall gearing (times)	8.81	6.16
Interest coverage (times)	1.21	1.51

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History: Please refer Annexure-2

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	-	-	-	146.60	CARE A3
Fund-based - LT-Term Loan	-	-	March -2027	337.53	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	295.20	CARE BBB-; Stable
Debentures-Non Convertible Debentures				0.00	Withdrawn
Fixed Deposit*	-	-	-	40.00	CARE BBB (FD); Stable

*tenure for FD is three years
***** *Outstanding Rs.23.33 crore as on March 31, 2019*

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	146.60	CARE A3	1)CARE A3 (05-Apr-19)	1)CARE A3 (05-Apr-18)	1)CARE A3 (17-Apr-17)	1)CARE A3 (20-Apr-16)
2.	Fund-based - LT-Term Loan	LT	337.53	CARE BBB-; Stable	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	295.20	CARE BBB-; Stable	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)
4.	Fixed Deposit	LT	40.00*	CARE BBB (FD); Stable	1)CARE BBB (FD); Stable (05-Apr-19)	1)CARE BBB (FD); Negative (05-Apr-18)	1)CARE BBB (FD); Negative (17-Apr-17)	1)CARE BBB (FD) (20-Apr-16)
5.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)

***** *Outstanding Rs.23.33 crore as on March 31, 2019*

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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