Godavari Biorefineries Limited

April 05, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities (Term Loan)	265.16 (enhanced from 150.31)	**CARE BBB-; Negative [Triple B Minus; Outlook: Negative]**	Reaffirmed
Long-term Bank Facilities (Fund Based)	400.00	**CARE BBB-; Negative [Triple B Minus; Outlook: Negative]**	Reaffirmed
Short-term Bank Facilities (Non-fund based)	143.00	**CARE A3 [A Three]**	Reaffirmed
Total Facilities	**808.16 (Rs. Eight hundred Eight crore and Sixteen lakh only)**		
Fixed Deposit Programme	35.00* (enhanced from 25.00) (Rs. Thirty Five crore only)	**CARE BBB (FD); Negative [Triple B (Fixed Deposit); Outlook: Negative]**	Reaffirmed
Non-Convertible Debenture Issue	65.00 (Rs. Sixty Five crore only)	**CARE BBB-; Negative [Triple B Minus; Outlook: Negative]**	Reaffirmed

**out of which Rs.6.36 cr. was outstanding as on March 31, 2017*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The reaffirmation of the ratings assigned to the bank facilities of Godavari Biorefineries Limited (GBL) derives strength from strong parentage of the resourceful Somaiya Group, along-with long track record and rich experience of the promoters in the sugar industry, locational advantage of its manufacturing facilities and fully integrated operations. CARE has also taken comfort from the demonstrated support from the promoters by way of infusion of funds as and when required.
The rating strengths are, however, tempered by net losses during last three years (FY15-FY17) aggravated due to payment of cane arrears, highly leveraged capital structure and moderate debt coverage indicators. The ratings are also constrained by working capital-intensive nature of operations along-with the inherently cyclical, seasonal and highly regulated nature of the sugar industry.
Going forward, GBL's ability to scale up its operations, improve its profitability margins, capital structure and liquidity through effective management of working capital cycle and refinancing of the short-term debt, constitute the key rating sensitivities.

Outlook: Negative
The outlook is 'Negative' on account of sustained losses in FY17 and 10MFY18 (Prov.) and the expectation of further impact on account of slump in sugar prices. Further working capital intensity is also expected to increase on account of higher crushing in SS 17-18 necessitating higher sugar inventory holding. The outlook would be revised to 'Stable' in case of improvement in the profitability and capital structure.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters with long track record in the sugar industry: GBL was promoted by late Mr. K.J. Somaiya in the year 1939 as The Godavari Sugar Mills Limited and has a track record of more than seven decades in the sugar industry.

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

The company is currently managed by his grandson Mr. Samir Somaiya, who serves as Chairman and Managing Director of the company

Fully integrated sugar unit: GBL's primary business activity is production and marketing of sugar which accounted for 51% of total operating income in FY17. The company also has integrated its operations into related businesses such as distillery, co-generation of power and chemicals in order to mitigate the risk, thus, making it a fully integrated sugar producing unit

Locational advantage: Company enjoys locational advantage as its facilities are located in Maharashtra and Karnataka, in the vicinity of one of the sugarcane growing hubs in the country. 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.

Infusion of funds: From period FY15-FY17, GBL raised Rs.185 crore through equity infusion and Non-convertible Debentures (NCDs) for its capital expenditure and working capital requirement. During FY18, the company has made a Rights Issue of equity shares from which it is expecting to raise about Rs.15 crore till Mar'18 and further Rs.15 crore in Q1FY19.

Key Rating Weaknesses

Cyclical, seasonal and regulated nature of sugar business: The production of sugar depends on the acreage under sugarcane and availability of sugarcane which in turn is dependent on monsoon. Also, the ebb and flow of sugar available in the market impacts sugar prices and the margins of the sugar mill owners. The typical length of a cycle is around four to five years.

Furthermore, the price paid to farmers for sugarcane 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 to be a challenge for sugar manufacturers and adversely affects the profitability of the companies.

Working capital intensive operations: GBL's business is a working capital intensive business by virtue of seasonality of agriculture business. The company maintains 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 the year end. During FY17, the operating cycle of the company has increased from 131 days in FY16 to 168 days in FY17 owing to increase in its inventory days.

Deterioration in total income along with net loss owing to arrears paid: The total operating income of the company has decreased in FY17 to Rs.988 crore from Rs.1,367 crore in FY16 majorly on account of reduction in sugarcane crushing and recovery owing to drought like conditions in the region. However, sugar prices rose further due to lower production during FY17 which resulted into an increase in PBILDT margins for sugar from 6.40% in FY16 to 16.18% in FY17.The company has fully repaid its cane arrears to farmers outstanding for sugar season 2013-14 in FY18.

Leveraged capital structure and moderate debt coverage indicators: The overall gearing ratio of the company has deteriorated to 7.13 as on March 31, 2017 as compared to 5.42 as on March 31, 2016 owing to increase in the utilisation of working capital limits and rise in the unsecured loan from banks during the year.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

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, co-gen and an ethanol blending unit. Besides, the company also has a distillery unit and a chemical unit to produce ethyl acetate at Sakarwadi, Maharashtra.

Standalone

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1367.95	988.38
PBILDT	172.20	126.70
PAT	(11.29)	(44.95)
Overall gearing (times)	5.42	7.13
Interest coverage (times)	2.07	1.59

A: Audited

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
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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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
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE BBB-; Negative
Fund-based - LT-Term Loan	-	-	March-2019	265.16	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	143.00	CARE A3
Debentures-Non Convertible Debentures	-	-	June-2021	65.00	CARE BBB-; Negative
Fixed Deposit	-	-	-	35.00	CARE BBB (FD); Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-BG/LC	ST	143.00	CARE A3	-	1)CARE A3 (17-Apr-17)	1)CARE A3 (20-Apr-16)	1)CARE A3 (08-Apr-15)
2.	Fund-based - LT-Term Loan	LT	265.16	CARE BBB-; Negative	-	1)CARE BBB-; Negative	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)

						(17-Apr-17)		
3.	Fund-based - LT-Cash Credit	LT	400.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)
4.	Fixed Deposit	LT	35.00	CARE BBB (FD); Negative	-	1)CARE BBB (FD); Negative (17-Apr-17)	1)CARE BBB (FD) (20-Apr-16)	1)CARE BBB (FD) (30-Apr-15)
5.	Debentures-Non Convertible Debentures	LT	65.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)

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