Godavari Biorefineries Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Term Loan)	250.00 (reduced from 265.16)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Rating Reaffirmed; Outlook revised to Stable**
Long Term Bank Facilities (Fund Based)	400.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Rating Reaffirmed; Outlook revised to Stable**
Short Term Bank Facilities (Non-Fund Based)	148.00 (increased from 143.00)	**CARE A3 (A Three)**	**Reaffirmed**
Total	**798.00 (Rs. Seven Hundred and Ninety Eight crore only)**		
Fixed Deposit Programme	40.00* (enhanced from 35.00) (Rs. Forty crore only)	**CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]**	**Rating Reaffirmed; Outlook revised to Stable**
Non-Convertible Debenture Issue	65.00 (Rs. Sixty Five crore only)	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	**Rating Reaffirmed; Outlook revised to Stable**

**Outstanding Rs. 21.05 crores as at March 31, 2018*
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 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. The ratings also take into account the improvement in financial performance in 10MFY19 and demonstrated support from the promoters by way of infusion of funds.

The rating strengths are, however, tempered by highly leveraged capital structure and significant amount of short term loans necessitating refinancing. 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: Stable

The outlook is revised from 'Negative' to 'Stable' owing to consistent improvement in operating profitability.

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. 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 44% of total operating income in FY18. As, the sugar industry is seasonal and highly cyclical in nature the company has diversified into related businesses such as distillery, co-generation power and chemicals in order to mitigate the risk, thus, making it a fully integrated sugar producing unit.

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

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.

Demonstrated promoter support by way of fund infusion
From period FY15- YTDFY19
, GBL raised Rs.217crore 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 raised about Rs.15 crore till Mar'18 and further Rs.17 crore in YTD FY19.

Improvement in operating profitability
GBL crushed 18.17 lac MT of sugarcane during SS and F.Y. 2017-18 with sugar production of 19.92 lac quintals –an increase of 53 % in sugarcane crushing & 64 % increase in sugar production. This could be achieved due to favourable agro-climatic conditions and better yield of sugar from sugarcane. Distillery manufactures various grades of Ethanol. The distillery services requirement of various customers from Beverage industry, Fuel Ethanol industry, Pharmaceuticals and Flavor &Fragrance industry. The total sale of Distillery division for the year is Rs 156 crore as against last year's sale of Rs.119 cr i.e; an increase of 31.5% over previous year. Distillery Division commissioned the incineration boiler of 40 MT/Hr and 4 MW turbines to generate power from August 2017. With the commissioning of this boiler; the company has started incinerating the distillery effluent in the boiler resulting into saving of fuel namely bagasse. This has helped the company to achieve Zero Liquid Discharge & operate the distillery for at-least 300 days. During 10M FY19 the company reported turnover of Rs.1257 cr with PBILDT of Rs125 cr and PAT of Rs.11 cr.

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. . The average working capital bank limit utilisation of the company stood at 80% during the past 10 months ending January 2019. The operating cycle of the company has improved to 147 days in FY18 from 168 days in FY17 owing to reduction in inventory days.

Leveraged capital structure and working capital intensive operations
Continuing losses at PAT level have eroded the networth thus weakening the capital structure of GBL. The overall gearing ratio of the company has deteriorated to 8.33x as on March 31, 2018 as compared to 7.36x as on March 31,. However, an operationally better sugar season has led to PBILDT interest coverage ratio improving to 1.21x in FY18 as compared to 0.96x in FY17.The company has significant amount of unsecured short term loans (Rs 364.38 crore as on March 31st 2018). In case of inadequacy of gross cash accruals the company has to resort to refinancing of these loans. Thus company is exposed to refinancing risk though comfort can be drawn from refinancing track record and parentage of Somaiya group.

Analytical approach: Standalone
Liquidity Analysis: The Company has cash and bank balances of Rs. 3.99 crores in FY18 as against Rs. 5.63 crores in FY17. The average working capital utilization in the last 12 months has been ~ 80%. The Company also relied on short term loans for its working capital requirements.

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)	FY17 (A)	FY18 (A)
Total operating income	988.92	1221.36
PBILDT	76.70	105.88
PAT	(38.72)	(21.12)
Overall gearing (times)	7.41	8.42
Interest coverage (times)	0.96	1.21

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.*

Analyst Contact:
Name: Pulkit Agarwal
Tel: 022 6754 3505
Email: pulkit.agarwal@careratings.com

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About CARE Ratings:

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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
Non-fund-based - ST-BG/LC	-	-	-	148.00	CARE A3
Fund-based - LT-Term Loan	-	-	March- 26	250.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE BBB-; Stable
Debentures-Non Convertible Debentures	June 25, 2015	10%	24th June 2021	65.00	CARE BBB-; Stable
Fixed Deposit	-	-	-	40.00	CARE BBB (FD); Stable

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	148.00	CARE A3	1)CARE A3 (05-Apr-18)	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	250.00	CARE BBB-; Stable	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	400.00	CARE BBB-; Stable	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)
4.	Fixed Deposit	LT	40.00	CARE BBB (FD); Stable	1)CARE BBB (FD); Negative (05-Apr-18)	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-; Stable	1)CARE BBB-; Negative (05-Apr-18)	1)CARE BBB-; Negative (17-Apr-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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