Godavari Biorefineries Limited

April 17, 2017

Ratings

Facilities/Instrument	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities (Term Loan)	150.31 (enhanced from 115)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed**
Long-term Bank Facilities (Fund Based)	400.00 (enhanced from 388)	**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	**693.31 (Rupees Six Hundred Ninety Three crore and Thirty One Lakh only)**		
Fixed Deposit programme	25* (Enhanced from 20) (Rupees Twenty Five crore only)	**CARE BBB (FD); Negative [Triple B (Fixed Deposit); Outlook Negative]**	**Reaffirmed**
Non-Convertible Debenture issue	65 (Rupees Sixty Five crore only)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed**

**out of which Rs.0.97 crore was outstanding as on March 31, 2016*
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 (FY14-FY16) 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 the expectation that GBLs financial risk profile is likely to remain under pressure in the short term due to subdued revenue and losses in FY17 on account of adverse impact on operations due to unavailability of sugarcane and also due to expected payment of sugarcane arrears and interest payable to farmers. However, liquidity is supported by sufficient cushion in Bank Limits, which were utilized on an average to the extent of about 68% in the 12 months ended January 2017.

Conversely, the outlook may be revised to 'Stable' if the income and profitability increases substantially on higher contribution of value-added products from the ongoing and future projects, thus improving accruals and culminating in better debt servicing metrics.

Detailed description of the key rating drivers

Key Rating Strengths

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

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 58% of total operating income in FY16. 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: The 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: During FY15 and FY16, GBL raised Rs.162 crore through equity infusion and Non convertible Debentures (NCDs) for its capital expenditure and working capital requirement. During 9MFY17, the Somaiya group along with Mandala Capital AG Limited (Mandala) further infused Rs.23 crore as equity in the company for working capital requirements.

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 FY16, the operating cycle of the company improved to 137 days from 188 days in FY15 owing to clearance of inventory.

Improvement in total income, albeit net loss owing to arrears paid: The total operating income of the company increased in FY16 to Rs.1,367 crore from Rs.976 crore in FY15 due to increase in revenue from sugar and chemical segment. However, owing to subdued price of sugar during FY16, improvement in PBILDT margins was restricted to 12.59% compared with 11.57% in FY15. During FY16, GBL paid cane arrears to farmers outstanding for sugar season 2013-14 amounting to Rs.64.46 crore which resulted in net loss of Rs.11 crore.

Leveraged capital structure and moderate debt coverage indicators: The overall gearing ratio marginally improved in FY16 despite losses owing to lower utilisation of working capital limits during the year. Overall gearing improved to 5.42 times as on March 31, 2016 from 5.57 times as on March 31, 2015, however it continuous to remains at an elevated level. The company also had short-term loans of Rs.287.66 crore outstanding as on March 31, 2016which need to be refinanced.

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

About the Company

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.
During FY16, GBL reported net loss after tax of Rs.11 crore on a total operating income of Rs.1367 crore vis-à-vis net loss after tax of Rs.83 crore on a total operating income of Rs.977 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

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
Non-fund-based - ST-BG/LC	-	-	-	143.00	CARE A3
Fund-based - LT-Term Loan	-	-	March 2019	150.31	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	400.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures	July 2015	10%	June 2021	65.00	CARE BBB-; Negative
Fixed Deposit	-	-	-	25.00	CARE BBB (FD); Negative

Annexure-2: Rating History of last three years

Sr.	Name of the	Current Ratings	Rating history

No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016	Dates & Ratings assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	143.00	CARE A3	-	1)CARE A3 (20-Apr-16)	1)CARE A3 (08-Apr-15)	1)CARE A3 (18-Apr-14)
2.	Fund-based - LT-Term Loan	LT	150.31	CARE BBB-; Negative	-	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)	1)CARE BBB- (18-Apr-14)
3.	Fund-based - LT-Cash Credit	LT	400.00	CARE BBB-; Negative	-	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (08-Apr-15)	1)CARE BBB- (18-Apr-14)
4.	Fixed Deposit	LT	25.00	CARE BBB (FD); Negative	-	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- (20-Apr-16)	1)CARE BBB- (08-Apr-15)	-

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