

Gujarat Credo Alumina Chemicals Private Limited

February 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	175.00	CARE BBB-; Stable [Triple B Minus; Outlook: Stable]	Reaffirmed
Total	175.00 (Rupees one hundred and seventy five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of Gujarat Credo Alumina Chemical Private Limited (GCACPL) continues to derive strength from its experienced promoters having long standing experience in the bauxite processing business, synergetic operations of the envisaged project under GCACPL being a forward integration of the existing operations of its group company [i.e. Gujarat Credo Mineral Industries Ltd. (GCMIL)], strategic location of its proposed manufacturing facility at Mundra SEZ and long term bauxite supply agreement of GCMIL with Gujarat Mineral Development Corporation Limited (GMDC). The rating also factors in its advanced stage of project completion and sales tie-ups entered by the company.

The rating is, however, continues to remain constrained on account of project risk associated with stabilization of the project and achievement of envisaged level of operations, competition from established player and risk associated with lower supply of bauxite by GMDC.

The ability of GCACPL to complete the project within envisaged time & cost parameters, receipt of required beneficiated bauxite from GCMIL and achievement of envisaged capacity utilization levels with expected sales realizations are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Advanced stage of project implementation and sales tie-ups

GCACPL is in advance stage of setting up a forward integration project to produce Specialty Alumina Chemicals viz. Alumina Tri-Hydrate (ATH) and had incurred 88% of the envisaged project cost of Rs. 298 crore as on December 31, 2018. In January 2019, it had started hot water trial run of the project and commercial production is envisaged to commence from April 2019. GCACPL had also entered into sales arrangement with Chem Asia and Chenchem International Co. Ltd. for 16,000 MPTA each of ATH production (50% of total capacity).

Experienced promoters with track record in similar line of business

GCACPL is a wholly owned subsidiary of Credo Mineral Industries Ltd (CMIL), which has resourceful promoters. As on March 31, 2018, CMIL on a standalone basis had a net worth of Rs. 110 crore. Gujarat Apollo Industries Ltd. (Gujarat Apollo) which holds ~23% stake in CMIL, had a net worth of Rs. 469 crore on a consolidated basis as on March 31, 2018 with negligible debt on its books. Chem Asia Technologies Pte Ltd. (Chem Asia) has invested around Rs. 108 crore for ~ 11% stake in CMIL till December 30, 2018 against exclusive right of 25% of production of GCACPL. The balance equity in CMIL is held by promoters of Credo group along-with their family members and few HNIs. GCMIL, a group company of GCACPL, is engaged in related field of manufacturing of beneficiated bauxite for the last five years.

Availability of long term raw bauxite supply agreement between GMDC and GCMIL

GMDC is a GoG owned company, having huge reserves of bauxite in the state of Gujarat. GCMIL has a long term bauxite supply agreement with GMDC to meet its requirement. This arrangement with GMDC for raw bauxite supply imparts competitive edge to the operations of GCMIL from which even GCACPL is envisaged to benefit as it is envisaged to be an extension of the operations of GCMIL.

Location advantage of setting up manufacturing plant at Mundra SEZ

Manufacturing facility of GCACPL is to be strategically located at Mundra SEZ which will give huge logistic advantage to its export business. In addition, GCACPL would also benefit from various SEZ exemptions available in the form of Taxes, cess, duties, etc.

Adequate Liquidity

GCACPL has moderate project debt equity of 1.40 times and is currently at advanced stage of implementation with promoter has infused Rs. 103. 24 crore as equity capital as well as unsecured loan out of their required contribution of Rs.

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

123.05 crore which exhibits their resourcefulness and commitment towards this project. As on December 31, 2018, GCACPL had cash balance of Rs. 9.61 crore.

Key Rating Weakness

Project Risk

There is a project stabilization risk in terms of achievement of desired quality as well as envisaged conversion rate of beneficiated bauxite to ATH which is crucial to achieve envisaged Total Operating Income (TOI) and profitability. GCACPL has appointed Alumin Resource LLC, USA (a global solution provider in the field of Minerals & Specialty chemical) to provide its technical know-how to mitigate the risk to certain extent.

Strong competition from established player in the market

In India, Hindalco is the single largest player which has dominant domestic market share of 80%-90% which allows it to dictate prices & quantities to be sold and hence it is likely to act as a strong competitor for GCACPL once its manufacturing facility is operational.

Risk associated with lower than required raw bauxite supply by GMDC

Project of GCACPL being a forward integration would critically depend on supply of beneficiated bauxite from GCMIL and in turn supply of beneficiated bauxite from GCMIL would depend on required supply of raw bauxite by GMDC. During FY16, there had been lower than required raw bauxite supply by GMDC to GCMIL due to some mining related issues at the end of GMDC despite its long-term bauxite supply agreement with it. Going forward required supply of raw bauxite from GMDC would be critical.

Analytical approach: Standalone.

Applicable Criteria:

[Rating Methodology-Manufacturing Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

About the Company

Incorporated on May 14, 2016 to setup a forward integration project to manufacture different grades of ATH, GCACPL is wholly owned subsidiary of CMIL. Beneficiated bauxite manufactured by its group company viz. GCMIL would be used as a raw material by GCACPL for manufacturing ATH. GCACPL's manufacturing facility would be located at Mundra Special Economic Zone (SEZ), Gujarat with an installed capacity of 65,000 MTPA. The total project cost is envisaged at Rs.298.05 crore which is planned to be funded through equity capital of Rs.105.50 crore, subordinated unsecured loans from promoter group of Rs.17.55 and balance by way of bank term loan of Rs.175 crore.

The project is currently at advanced stage of implementation with total incurred cost of Rs. 263.26 crore by December 31, 2018, funded by equity capital of Rs. 92.19 crore, promoter group unsecured loan of Rs. 11.05 crore, Term debt of Rs. 103.71 crore and balance Rs. 56.30 crore as creditor's advance. In January 2019, it had started hot water trial run of the project and commercial production is envisaged to commence from April 2019.

Brief Financial: Not applicable since it is project Phase company

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
Fund-based - LT-Term Loan	-	-	March, 2029	175.00	CARE BBB-; 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.	Fund-based - LT-Term Loan	LT	175.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (14-Nov-17)	-	-

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