

July 18, 2022

Ghodawat Consumer Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Fund-based term loan	111.00	[ICRA]BBB(Stable); assigned
Long-term/Short-term Fund-based cash credit	79.00	[ICRA]BBB(Stable)/ [ICRA]A3+; assigned
Total	190.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to Ghodawat Consumer Limited (GCL) factors in its healthy and diversified revenue streams including manufacturing and trading, benefits derived as part of the Sanjay Ghodawat Group, which has interests in various sectors and the extensive experience of the promoters in the fast-moving consumer goods (FMCG) segment. The assigned rating further factors in GCL's diverse product portfolio of primarily edible oil, rice processing, sugar and jaggery, snacks and beverages, etc., with an established local brand presence aided by a well-entrenched distribution network. ICRA also notes the significant growth in the overall scale of the company with revenue growth in FY2022 at a CAGR of ~54% over the past four years. This has supported a considerable improvement in the overall credit risk profile characterised by growing cash accruals, improved net worth supported by equity infusion and healthy return metrics. Moreover, ICRA expects the coverage indicators of GCL to moderate marginally, going forward, given the envisaged capex in the near-to-medium term, which is expected to be largely funded by yet-to-be tied up debt and internal accruals.

The rating, however, remains constrained by GCL's exposure to commodity price risks in edible oil as well as in the sugar segment. GCL is expected to avail significant debt funded capex which would exert pressure on the coverage indicators pending the ramp up of capacity utilisation and returns. The ratings are also constrained by the working capital-intensive nature of operations accentuated by significant ongoing volatility in the commodity prices. While GCL's brand presence is primarily limited to South Maharashtra and North Karnataka, the company also faces competition in the FMCG segment from organised as well and unorganised players. Therefore, the cost measures to protect profitability amidst GCL's push to expand its brand to the other territories, remains to be seen. Further, any diversion of funds to any other group entity in order to support group operations, going forward, will also be a key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's expectation that GCL's overall scale will continue to grow led by enhanced capacity levels and the experience of its promoters.

Key rating drivers and their description

Credit strengths

Part of reputed Sanjay Ghodawat Group with experienced promoters at the helm – GCL is part of a reputed Sanjay Ghodawat Group with interests across several sectors including aviation, education, mining, real estate, renewable energy, operations and maintenance of windmills, retail, FMCG, etc. The FMCG vertical, through GCL, carries significant strategic importance and generates sizeable earnings for the Group. The promoters have healthy experience of nearly two decades in the FMCG sector with the operations starting from 2003. It is well supported by an experienced and professional management.

Diverse revenue streams and product portfolio– GCL's revenue streams are broadly classified into manufacturing and trading. The manufacturing stream has its own, in-housing manufacturing vertical as well as third-party manufacturers. The company

also enjoys a diverse product portfolio of edible oil, rice processing, sugar and jaggery, snacks, beverages, wheat flour, salt, etc. However, there is concentration towards edible oil as ~73% of the total revenue is derived from it. The diversity is expected to improve with transfer of rice processing to its own manufacturing coupled with its planned capacity enhancements across segments. ICRA notes that the company's existing and planned facilities are strategically located in proximity to the feedstock, which is an advantage.

Growing regional penetration of 'Star' brand aided by established distribution network – GCL sells its FMCG products under the Group's common brand, Star. The brand presence is strong but limited to South Maharashtra and North Karnataka. The same is supported by an established distribution network with more than 2300 distributors and super stockists. Further, through its wholly-owned subsidiary, Ghodawat Retail LLP, the company currently has ~82 retail stores. The company is consistently expanding its base in terms of facilities as well as retail/distributor presence. The company is also planning to expand its brand to other nearby states and therefore the impact on the profitability after incurring additional cost for the expansion remains to be seen.

Consistent improvement in credit risk profile – From FY2018 till FY2022, GCL has grown at a CAGR of ~54% from Rs. 240 crore to Rs. 1339 crore (provisional figures on a consolidated basis). Apart from the revenue, the profitability has also strengthened with 7.6% of operating margin and RoCE of 23.8% in FY2022 from 7.3% and 16.6% in FY2021, respectively. Net cash accruals improved from Rs. 5.2 crore to Rs. 75.8 crore in the same period. On the back of strong growth in revenue and healthy profitability as well as equity infusion, the tangible net worth (TNW) has also grown to ~Rs. 187 crore in FY2022 with gearing of 1.3 times as on March 31, 2022. The growth has been supported by increasing deployment of capital, which has been largely funded by debt of ~Rs. 235 crore as on March 31, 2022 resulting in moderated TD/OPBIDTA of 2.3 times.

Credit challenges

Exposure to commodity price risks as well as regulatory volatility – The profitability of the company remains exposed to the commodity as well as regulatory volatility, particularly in the edible oil, sugar and jaggery segments. Although, as of now, the prices of jaggery and Khandsari sugar is not regulated by the government. In FY2022, the company realised gains from a buoyant domestic demand scenario and favourable prices. However, the volatility remains and may lead to adverse movements, going forward. For the sugar and jaggery segment as well, the prices are largely regulated by the Government, which subsequently results in fluctuating profitability. ICRA notes that in trading, the company largely follows back-to-back pricing mechanism and, thus, manages its pricing and forex risks.

Significant capex in the pipeline may put pressure on the coverage indicators – There is a significant envisaged capex, which includes enhanced capacities of edible oil solvent extraction and refining as well as rice processing. The enhancement in the capacities will be in FY2023 and FY2024 and its impact on the revenues will start to reflect from FY2024. The sizeable capex of ~Rs. 71 crore in FY2023 is largely expected to be funded by debt, which is further expected to moderate the coverage indicators. The long-term debt is yet to be tied up and the key terms are, thus, yet to be finalised. Further, implementation without any significant cost and time overruns will also be crucial.

Working capital intensive operations – The operations of the company are working capital intensive (NWC/OI of 18% in FY2022), which have been accentuated in recent times amid the ongoing volatility in the input as well as finished goods prices. The company's funding requirements vary in line with the procurement and processing season of its commodities. Moreover, the healthy revenue growth has also necessitated high working capital requirements, particularly towards stockholding across products as the company does not offer substantial credit to its customers. The funding of the working capital has largely been through the cash credit and pledge limits and ICRA notes that the company has received enhancements, which lends some comfort.

Intense competition in the FMCG space – There is intense competition in the FMCG sector across markets from both the organised as well the unorganised markets. The company's brand presence helps it counter competition. However, in the long-term, and as part of its regional expansion, it will continue to be exposed to competition and will need to keep investing in its branding and distribution.

Liquidity position: Adequate

GCL's liquidity position is **adequate** with cushion in working capital limits (unutilised working capital limits of Rs. 46 crore as on March 31, 2022). The liquidity is further supported by additional working capital limits of Rs. 35 crore, which has recently shifted from the Group company. There are significant repayments in FY2023, which are expected to increase further given the planned capex. However, the company's cash accruals seem to be sufficient to fund the same. While the company does not maintain free cash balances, ICRA expects promoters to provide timely funding support in case of any exigencies.

Rating sensitivities

Positive factors ICRA could upgrade GCL's rating if there is substantial growth in revenues while maintaining operating margins and improving liquidity. Specific credit metrics that could lead to an upgrade of GCL's rating include TD/OPBDITA lower than 2.3 times on a sustained basis.

Negative factors – Negative pressure on GCL's rating could arise if there is decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Further higher than envisaged debt-funded capex or any major dividend declaration or funding support to the group companies, resulting in deterioration of coverage indicators along with worsening liquidity may also trigger a downgrade. Specific credit metrics that could lead to a downgrade of GCL's rating include TD/OPBDITA over 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology on FMCG
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

GCL is part of the Sanjay Ghodawat Group. In FY2022, the name of the company was changed from Ghodawat Foods International Private Limited to Ghodawat Consumer Private Limited and later to Ghodawat Consumer Limited (GCL). GCL was incorporated in 2003 and is headquartered in Kolhapur, Maharashtra. The company is currently involved in a variety of businesses, which includes FMCG manufacturing, contract manufacturing and trading. However, most of the revenue is derived from FMCG manufacturing, which includes segments such as edible oil, rice, snacks, beverages, jaggery, dairy, and personal care products. The company is also involved in the retail operations through the retail chain, "Star Localmart", through its subsidiary, Ghodawat Retail LLP.

Key financial indicators (Audited/Provisional)

Consolidated	FY2020 (A)	FY2021 (A)	FY2022 (Prov.)
Operating Income (Rs. crore)	527.4	893.6	1,339.1
PAT (Rs. crore)	(16.6)	24.4	56.6
OPBDIT/OI (%)	6.7%	7.3%	7.6%
PAT/OI (%)	-3.1%	2.7%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	18.2	2.9	1.6
Total Debt/OPBDIT (times)	7.5	3.0	2.3
Interest Coverage (times)	1.7	3.6	6.6

Standalone performance, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type*	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
			(Rs. crore)	(Rs. crore)				
					18-Jul-22	-	-	-
1	Term Loan	Long-term	111	111	[ICRA]BBB(Stable)	-	-	-
2	Cash Credit	Long-term/Short-term	79	0	[ICRA]BBB(Stable)/[ICRA]A3+	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017	NA	March 2026	111.00	[ICRA]BBB (Stable)
NA	Cash Credit	NA	NA	NA	79.00	[ICRA]BBB (Stable)/[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	DSL Ownership*	Consolidation Approach
Ghodawat Ayurstar LLP	99.98%	Equity Method
Ghodawat Bathiya Foods LLP	50.98%	Equity Method
Ghodawat Mediatech LLP	99.99%	Equity Method
Ghodawat Retail LLP	99.99%	Equity Method

*As on March 31, 2022

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