Gokul Refoils & Solvent Limited

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based-Cash Credit	8.75	-	[ICRA]BBB; rating on watch with developing implications withdrawn
Non Fund Based Limits	468.90	-	[ICRA]A3+; rating on watch with developing implications withdrawn
Long Term/Short Term Unallocated	11.35	-	[ICRA]BBB/A3+; rating on watch with developing implications withdrawn
Long Term/Short Term (Proposed)	-	50.00	[ICRA]BBB(Stable)/A3+ assigned
Total	**489.00**	**50.00**	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) and a short-term rating of [ICRA]A3+ (pronounced as A three plus) to the Rs.50.00[1] crore proposed bank facilities of Gokul Refoils & Solvent Limited (GRSL or the company) [2]. The outlook on the long-term rating is 'Stable'. ICRA has also withdrawn the long-term rating of [ICRA]BBB (pronounced ICRA triple B) and short-term rating of A3+ (pronounced as ICRA A three plus) having a rating watch with developing implication on the Rs. 489.00 crore outstanding limit of GRSL.

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Gokul Refoils & Solvent Limited (GRSL), Gokul Agri International Limited (GAIL) and Gokul Overseas (GO) as currently all the entities are operating under the same brand, besides having common promoters and management structure. Furthermore, the long-term and short-term ratings assigned to the existing limits of GRSL have been withdrawn at the request of the company, based on the no-dues certificate provided by its banker.

The assigned rating factors in the satisfactory utilization levels at its various plants; established position of the group in the edible oil industry; long track record of the promoters in the edible oil industry and a diversified product portfolio with flexibility to change the product mix according to price trends and market. The ratings also consider the locational advantage arising from the proximity to ports as well as oilseed growing belts, the integrated nature of operations at Sidhpur and Kandla units which provides the flexibility to reduce dependence on crude oil as well as provide an upside to the volumes. Further, ICRA also factors in the moderate gearing which stood at 1.1 times as on March 31, 2018 that was supported by de-leveraging following the unit sale at Haldia in FY2018. Further, the ratings continue to favourably factor in the risk management practices in place to hedge forex and commodity prices.

The ratings, however, continue to be constrained by the inherently thin margins in this line of business, reduction in scale following the de-merger and unit sale at Haldia, weak interest coverage matrices, moderate market position of the company in the relatively high margin retail segment and highly fragmented nature of industry which exposes GRSL to

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

the competition from the unorganized players and large players, including multinationals. The ratings are also constrained by the vulnerability of the company's profitability to the duty differential between crude and refined oil and the climatic risks associated with procurement of indigenous oilseeds and the regulatory changes with respect to domestic and Indonesian duty structure. Further, profitability also remains exposed to adverse fluctuations in commodity prices and exchange rates; although the company has a hedging policy in place as per which it hedges a large share of its exposures besides reducing its exposure towards imported oils. Furthermore, while GRSL booked a profit amounting to Rs. 29 crore on the sale of its Haldia Unit in FY2018, the same was off-set by a one-time impairment loss on its investment in a subsidiary totalling Rs. 25 crore. Moreover, the liquidity generated with the unit sale was utilized towards retiring unsecured loans from promoters and extending advances to other group companies. ICRA notes that the any significant direct or indirect support extended to non-core business areas of the group by the company would remain a key rating sensitivity.

Outlook: Stable

ICRA believes that given the favourable demand outlook and large processing/refining capacities; the operating income of GRSL (via its ownership in GAIL) is expected to show steady growth over the medium term. The profitability indicators are likely to remain at existing low levels and will remain sensitive to changes in crude oil/oilseed prices. The outlook may be revised to 'Positive' if there is a significant improvement in the company's profitability levels, return indicators and interest coverage metrics. The outlook may be revised to 'Negative' if there is any large capex, significant support to non-core businesses or deterioration in the financial risk profile due to to price fluctuations of imported oils, reduction in the duty differential between crude and refined oil, increasing forex exposure as well as likely increase in selling and brand building costs as the company attempts to increase the proportion of retail sales.

Key rating drivers

Credit strengths

Long experience of the promoters in the edible oil business- GRSL is an integrated player in the business of oil seed crushing, de-oiled cake extraction, refining of edible & castor oil, manufacturing castor oil derivatives and trading in commodities. GRSL, GAIL & GO are promoted by Mr Balvantsinh Rajput who along with Mr. Kanubhai Thakkar, co-promoted Gokul Refoils & Solvent Limited in 1982 and have extensive experience in the edible oil industry spanning more than three decades. The Gokul Group however de-merged in FY2016 with GRSL, GAIL & GO operated under the management of Mr. Balvantsinh Rajput while GARL is operated under the management of Mr. Kanubhai Thakkar.

Group positioned among leading edible and non-edible oil manufacturers in the country- Gokul Group (GRSL, GAIL & GO) is one of the larger players in the fragmented refined edible/non-edible (castor) oil industry and enjoys a strong market position in the bulk segment of edible oil market. The contribution from the retail segment has remained at ~40-50%, however sustained efforts are being made to increase the presence of its brand across several states in North and Central India. The refined oil is sold by the company under the brand name of "Gokul", "Rozana", "Gurjari" and "Vivaan". The company has been continuously expanding the distribution network that currently caters to several states in through C&F agents and depots, several hundred dealers and retail points. Moreover, GO remains one of the leading castor oil derivatives entity in the country with a portfolio of ~12-15 derivatives.

Diversified product portfolio across various types of edible oils as well as castor oil; imparts flexibility in changing product mix according to price trends and market conditions- GRSL produces a wide variety of edible oils to cater to the needs of all consumer and geographic segments which mitigates the seasonality risk associated with any particular product. The product portfolio of GRSL mainly includes refined oil (96% of total revenues for FY2018) and deoiled cake (4% of total revenues in FY2018). The product mix for refined oil segment is dominated by castor oil, mustard oil with lower contribution of palm oil, soybean oil and cotton seed oil. Castor oil contributed to 41% of total oil revenue for FY2018 whereas mustard oil and palm oil contributed 27% & 14% while the contribution of soybean oil stood at 12%.

Contribution of cotton seed oil and other edible oils remains low at 4% in FY2018. Moreover, GRSL has reduced its reliance on imported oils with focus on refining and selling indigenous oils thereby limiting the exposure to volatility in international prices and currency related movements to a certain extent.

While realization for most edible oils remained stable in FY2018, soyabean prices dropped sharply while castor oil prices witnessed a sharp up-swing. Average sales realization in the oils segment for FY2018 for GRSL stood at ~Rs. 95/kg (~Rs. 74/kg in FY2017) for castor oil,~Rs. 79/kg (~Rs. 77/kg in FY2017) for mustard oil,~Rs. 55/kg (~Rs. 69/kg in FY2017) for soybean oil, ~Rs. 50/kg (~Rs. 52/kg in FY2017) for palm oil and ~Rs. 73/kg (~Rs. 73/kg in FY2017) for cotton seed oil.

Financial risk profile characterised by moderate gearing and TOL/TNW - GRSL's gearing level has improved from 2.5 times as on March 31, 2107 to 1.1 time as on March 31, 2018 while TOL/TNW position reduced from 2.8 times to 1.33 time during the same period, largely aided by de-leveraging undertaken with proceeds from the sale of the Haldia unit in FY2018. Furthermore, the overall liquidity profile of the company is supported by un-drawn lines of credit (fund based and non-fund based) totaling Rs. 153 crore as on March 31, 2018 besides cash and bank balances totaling Rs. 74 crore (including ~Rs. 70 crore of margin money).

Credit challenges

Thin operating margins and net margins-The ratings however continue to be constrained by the inherently thin margins in this line of business which have remained range-bound between 1.5-2.5% percent. At a consolidated level, operating margins were lower at 1.60% during FY2018 vis-à-vis 1.91% in FY2017 due to higher raw material costs and fixed costs incurred at Haldia unit while operations at the plant remained shut following announcement of the unit sale in FY2018. Net margins continued to remain <1% at a consolidated level despite reporting a gain on the sale of its Haldia unit of Rs. 29 crore as the same was off-set to a large extent by impairment loss booked on its investment in its subsidiary amounting to Rs. 25 crore.

Reduced scale of operations post the demerger and unit sale - There has been a significant decline in overall scale of operations following the group de-merger in FY2015 and subsequent unit sale at Haldia in FY2018. Accordingly, overall scale reduced from Rs. 5869 crore in FY2015 to Rs. 1987 crore in FY2018.

Earning prospects remain vulnerable to changes in duty differential between crude and refined oil, volatility in raw material prices and agro climatic risk; however, risk management practises continue to remain robust with a hedging policy in place for forex and commodity prices - The ratings continue to be constrained by the vulnerability of the company's profitability to the duty differential between crude and refined oil and the regulatory changes with respect to domestic and Indonesian duty structure. Further, profitability also remains exposed to adverse fluctuations in commodity prices and exchange rates; although the company has implemented a hedging policy as per which it hedges a large share of its exposures. The low margin nature of the industry, dependence on climatic factors for good harvest and high import dependence for meeting edible oil requirements result in vulnerability of profitability of players like GRSL in a volatile pricing scenario.

Any significant increase in direct or indirect support extended to non-core business areas (power) would be a concern and rating sensitivity- While presently the group has no large-scale capex plans in the near to medium term in GRSL, GAIL and GO, any commitments by GRSL towards other group ventures like power would remain a key rating sensitivity. Advances given to group companies, namely-Gujarat Gokul Power Limited stood at Rs. 16.5 crore as on March 31, 2018, extended majorly out of proceeds from sale of the Haldia unit.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Rating Methodology on Edible Oil (Solvent Extraction)

About the company:

Gokul Refoils and Solvent Limited (GRSL) was promoted by Mr. Balvantsinh Rajput & Mr. Kanubhai Thakkar in the year 1982 as a small unit for seed processing and trading in edible oils. In 1992, it was incorporated as Gokul Refoils and Solvent Private Limited. After its incorporation, the company setup an oil refinery at Sidhpur, in Gujarat. Over the years, it expanded its refining capacity and also setup crushing and extraction facilities at different locations. The promoters also set up a castor oil refinery and castor oil derivatives manufacturing facility under Gokul Overseas (GO) in 1995. Gokul Refoils & Solvent Limited (GRSL) de-merged its Gandhidham unit into Gokul Agro Resources Limited (GARL) and transferred its Sidhpur unit to a wholly-owned subsidiary viz. Gokul Agri International Limited (GAIL) while the Haldia unit remained under GRSL. The de-merger received the approval and sanction from Hon'ble High Court of Gujarat with the effective date being July 01, 2015. Furthermore, during FY2018, the company sold its Haldia unit in an all cash deal to Adani Wilmar Limited.

GRSL, GAIL & GO are operated under the management of Mr. Balvantsinh Rajput while GARL is operated under the management of Mr. Kanubhai Thakkar.

For the year FY 2018, the company reported an operating income of Rs.1987 crores and profit after tax of Rs. 9 crore on a consolidated basis. For FY 2017, the company reported an operating income of Rs.1856 crore and profit after tax of Rs.3 crore.

Key Financial Indicators (Audited)-Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	1856	1987
PAT (Rs. crore)	3	9
OPBDIT/ OI (%)	1.9%	1.6%
RoCE (%)	4.0%	5.7%
Total Debt/ TNW (times)	2.5	1.1
Total Debt/ OPBDIT (times)	19.6	9.7
Interest coverage (times)	1.1	1.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating July 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 July 2017	April 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 August 2015
1	EPC/FBP/PCFC/Others	Long Term	8.75	-	[ICRA]BBB& withdrawn	[ICRA]BBB &	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non Fund Based-L/C, BG & CEL	Short Term	468.90	-	[ICRA]A3+& withdrawn	[ICRA]A3+&	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3	Long Term/ Short Term Unallocated	Long Term/ Short Term	11.35	-	[ICRA]BBB&/A3+& withdrawn	[ICRA]BBB&/A3+&	[ICRA]BBB (Stable) /A3+	-	-
4	Long term/Short Term-Fund Based/Non Fund Based(Proposed)	Long Term/ Short Term	50.00	-	[ICRA]BBB(Stable)/ A3+ assigned	-	-	-	-

&: rating on watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	EPC/FBP/PCFC/Others	NA	NA	-	8.75	[ICRA]BBB&; withdrawn
NA	LC/BG/CEL	NA	NA	-	468.90	[ICRA]A3+&; withdrawn
NA	Long Term/Short Term-Unallocated	NA	NA	-	11.35	[ICRA]BBB&/A3+&; withdrawn
NA	Based/Non Fund Based (Proposed)	NA	NA	-	50.00	[ICRA]BBB(Stable)/A3+

Source: Gokul Refoils & Solvent Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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