

March 27, 2023

Ghaziabad Organics Limited: [ICRA]BB- (Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit	4.00	[ICRA]BB- (Stable); assigned
Long-term fund-based- Term loan	33.00	[ICRA]BB- (Stable); assigned
Short-term – Non-fund based facilities - Bank guarantee	7.00	[ICRA] A4; assigned
Total	44.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned ratings factor in Ghaziabad Organics Limited's (GOL) successful commissioning of the grain-based ethanol distillery in November 2022, a shift from molasses-based ethanol distillery, which have been operational for the last few years. The ratings also factor in the adequate experience of the promoters in the ethanol/special denatured spirit (SDS) industry. The company is likely to report healthy revenue growth, driven by healthy capacity utilisation of the existing capacity and the capacity enhancement to 90KLPD from 50KLPD, to be completed by May 2023.

In the current fiscal, the company incurred significant capital expenditure, which was largely funded through a mix of debt and unsecured loans from promoters. The debt-funded capex has moderated the debt protection metrics. However, ICRA expects these to improve with the stabilisation of operations, increase in production volumes and savings in power and fuel, resulting in healthy cash accruals. GOL sells special denatured spirit (SDS), which is a 95% pure form of ethanol, to chemical manufactures producing chemicals like ethyl acetate due to better pricing vis-à-vis ethanol prices which are regulated by the Government. Also, the company will earn incremental revenue from the sale of its by-product, dried distillers grains (DDGS), used as a protein-rich animal feed. The product is easily saleable in the local market and mitigates the risk of fluctuations in operating margins.

The ratings are constrained by the company's presence in a specific region, resulting in a moderate operating scale, in addition to the nascent stage of the grain-based distillery's operations. Further, GOL's margins remain exposed to the volatility in raw material prices.

The Stable outlook on GOL's rating reflects ICRA's opinion that it will continue to generate adequate cash flows with the ramp-up in production, resulting in a steady improvement in its credit profile.

Key rating drivers and their description

Credit strengths

Expectation of improvement in debt coverage - In the current fiscal, the company's cash flows were impacted by a shutdown of the operations for 4-4.5 months to undertake the shift to a grain-based ethanol distillery. The debt levels have also gone up as the company incurred a significant capital expenditure of Rs. 34-36 crore for capacity enhancement, which was funded through a mix of debt and unsecured promoter loans, resulting in a moderation of the debt metrics. Going forward, with the stabilisation of operations, increased capacity and healthier cash flows, the debt coverage metrics are expected to improve.

Adequate experience of promoters in ethanol industry – GOL's promoters have adequate experience in the ethanol industry as the ethanol distillery has been operational since FY2019. Further, one of the promoters of GOL, Mr. Vijay Rawat, has over two decades of experience in the chemical industry and has been actively involved in the day-to-day operations of the plant.

Credit challenges

Moderate scale of operations - GOL has a moderate scale of operations in the regulated ethanol industry with the presence of numerous medium and small-sized players.

Nascent stages of grain-based operations - GOL's grain-based operation is in a nascent stage with only three months of full operation. The performance has been satisfactory till now, coupled with better profitability margins. The future performance of the plant will be a key monitorable, given that the unit is in a stabilisation phase and the company is undertaking capacity enhancement.

Vulnerability to changes in raw material prices - GOL's operating margins likely to get impacted by volatile raw material prices. The rise in raw material prices directly impacts its profit margins due to the lag in passing on the same to the consumers. Moreover, the selling price of special denatured spirit (SDS) is largely in line with the industry pricing. Ethanol prices are controlled by the state government. Thus, any large changes in input prices could impact GOL's return metrics.

Liquidity position: Stretched

The liquidity profile of the company is stretched with limited cash balances and almost full utilisation of the working capital limits. While the debt repayments will commence from October 2024, it remains to be seen whether the ramp-up of production will generate adequate cash flows by then.

Rating sensitivities

Positive factors – ICRA could upgrade GOL's ratings if the company demonstrates a sustained growth in revenues while maintaining healthy profitability margins.

Negative factors – Pressure on GOL's ratings could arise if there is a decline in revenues and operating margins, resulting in lower cash flows on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Ghaziabad Organics Limited (GOL), incorporated in January 1996, got the licence to produce ethanol and special denatured spirit (SDS) in 2018. The company commenced its operation with a molasses-based ethanol distillery in November 2018. In November 2022, the company shifted to a grain-based ethanol distillery. The distillery can run on dual feedstock, so no major capex was incurred though the plant had to be shut down for 4-4.5 months for the transition. The grain-based distillery is in Uttar Pradesh with a capacity to produce 50 kilolitres per day (KLPD) of ethanol; there is also a bottling plant with a capacity of 4,160 cases per day for bottling of country liquor. Initially, the company began its operations as a manufacturer of ethyl acetate, butyl acetate and other chemicals, followed by the licence to produce ethanol in 2018. It also got a licence for extra-neutral alcohol and bottling of country liquor in January 2020 as well as for India Made Foreign Liquor (IMFL) in December 2021. GOL is a professionally managed organisation where all its directors are leading industrialists, real estate developers and

financial experts. The company is in the process of enhancing the ethanol distillery capacity to 90 KLPD, which is likely to get completed by May 2023.

Key financial indicators (audited)

GOL Standalone	FY2021	FY2022
Operating income	37.9	55.9
PAT	1.6	1.6
OPBDIT/OI	18.1%	12.7%
PAT/OI	4.1%	2.9%
Total outside liabilities/Tangible net worth (times)	4.0	3.6
Total debt/OPBDIT (times)	4.1	3.8
Interest coverage (times)	4.7	4.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 (Rs. crore)	Amount outstanding as on February 28, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				March 27, 2023	-	-	-
1 Fund-based – Cash credit	Long term	4.00	-	[ICRA]BB- (Stable)	-	-	-
2 Fund-based - Term loan	Long term	33.00	28.7	[ICRA]BB- (Stable)	-	-	-
3 Non-fund based facilities - Bank guarantee	Short term	7.00	-	[ICRA]A4			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based- Term loan	Simple
Short-term – Non-fund based facilities - Bank guarantee	Very 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based – Cash credit	NA	NA	NA	4.00	[ICRA]BB- (Stable)
NA	Long-term fund-based- Term loan	Sept 2022	8.95%	FY2030	33.00	[ICRA]BB- (Stable)
NA	Short-term – Non-fund based facilities - Bank guarantee	NA	NA	NA	7.00	[ICRA]A4

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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