

July 05, 2024

Ghodawat Consumer Limited: Ratings downgraded to [ICRA]BBB- /[ICRA]A3; outlook continues to remain Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	145.50	113.70	[ICRA]BBB- (Negative); rating downgraded from [ICRA] BBB (Negative)
Long-term/ Short-term – Fund-based limits – Cash Credit/WCDL	168.50	168.50	[ICRA]BBB- (Negative)/[ICRA] A3; rating downgraded from [ICRA] BBB (Negative)/[ICRA]A3+
Long-term/ Short-term – Non-fund based limits	30.00	30.00	[ICRA]BBB- (Negative)/[ICRA] A3; rating downgraded from [ICRA] BBB (Negative)/[ICRA]A3+
Unallocated limits	7.45	7.45	[ICRA]BBB- (Negative)/[ICRA] A3; rating downgraded from [ICRA] BBB (Negative)/[ICRA]A3+
Total	351.45	319.65	

*Instrument details are provided in Annexure-I

Rationale

The downgrade in the ratings of Ghodawat Consumer Limited (GCL) considers the sustained weakening in its operating performance due to volatility in the pricing of its key product segment, edible oil, and the availability of key raw materials (soyabean seeds). This trend is expected to continue in the near term. Although GCL operates in the manufacturing and sale of fast-moving consumer goods (FMCG) products, it derives most of its revenues from products like edible oil (60-70% of total revenue as on March 31, 2024), rice and wholewheat flour (atta), which are exposed to agro-commodity price volatility. This was evident in its performance in the past two years, with revenues and margins expanding in FY2022 due to an increase in edible oil prices but contracting sharply in FY2023 and FY2024 as prices dropped significantly. The operating profitability and return indicators were also affected, with the consolidated OPM declining to 0.5% in FY2023 and FY2024 from 7.2% in FY2022.

In FY2024, the company deferred its capex plans and the promoters infused incremental funds to support GCL's overall credit profile. It also divested the loss-making retail operations to a separate promoter-owned entity. Due to the weakening of operating profitability, GCL's credit metrics deteriorated over the last two years, with total external debt / OPBITDA at 45.0 times as on March 31, 2024 (47.8 times in FY2023 and 3.0 times in FY2022). The interest coverage ratio declined to 0.2 times in FY2024. ICRA expects a marginal improvement in operating profitability in FY2025, as the entity has been able to secure adequate raw material seeds. However, GCL has sizeable debt repayment obligations in FY2025 (~Rs. 42 crore). While the commodity prices are expected to stabilise in the current fiscal year, ICRA will continue to monitor GCL's ability to navigate such market volatilities and maintain stable earnings and credit profile, which remains critical from a credit perspective.

However, the ratings continue to factor in GCL's healthy and diversified revenue streams, including manufacturing and trading, and its diverse product portfolio comprising edible oil, rice processing, flour milling, snacks and beverages. With a major proportion of its revenues derived from staples, the sales variability is typically low, supporting its revenue visibility. Furthermore, its presence in impulse categories like snacks and beverages complements its product offerings. The ratings also factor in GCL's established local brand presence aided by a well-entrenched distribution network.

ICRA also notes the benefits that GCL derives as part of the Sanjay Ghodawat Group, which has interests in various sectors and the extensive experience of the promoters in the FMCG sector. As demonstrated in the current fiscal through incremental fund infusion in GCL to mitigate weakness in earnings, ICRA expects the promoters to provide timely funding support going forward

in case of any exigencies. However, any diversion of funds to other Group entities to support Group operations will be a key rating sensitivity.

The ratings continue to be constrained by the working capital-intensive nature of operations accentuated by volatility in commodity prices. While GCL's brand presence is primarily limited to southern Maharashtra and northern Karnataka, the company faces competition in the FMCG sector from both organised and unorganised players. Thus, the effectiveness of cost measures to protect profitability amid GCL's efforts to expand its brand into other territories remains to be seen. Further, any diversion of funds to other Group entities to support Group operations will also be a key rating sensitivity.

The negative outlook on the entity reflects the overall weakness in the edible oil industry, which is expected to lead to relatively weaker operating performance in the near term. In addition, the entity has sizeable debt repayments in FY2025, and support from the promoter Group would remain a key factor to monitor.

Key rating drivers and their description

Credit strengths

Part of reputed Sanjay Ghodawat Group with experienced promoters at the helm – GCL is part of the reputed Sanjay Ghodawat Group, which has interests across several sectors, including aviation, education, mining, real estate, renewable energy, operations and maintenance of windmills, retail and FMCG. The FMCG vertical, operated through GCL, carries significant strategic importance for the Group. The promoters have healthy experience of approximately two decades in the FMCG sector, with operations starting in 2003. They are well supported by an experienced and professional management team.

Presence across diverse product segments – GCL's revenue streams are broadly classified into manufacturing and trading, with manufacturing carried out at its own facilities as well as through third-party manufacturers. Additionally, GCL carries out contract manufacturing for third parties in select product segments. The company offers a diverse product portfolio of edible oil, rice, snacks, beverages, wheat flour, salt, etc. However, there is some concentration towards edible oil, which accounts for ~60-70% (including manufacturing and trading) of the total revenue, even as the company takes active steps to expand its presence in other product segments. ICRA notes that GCL's existing and planned facilities are strategically located in proximity to the feedstock, which is advantageous. The company has recently added Coolberg and TBH, which fall under premium products further helping to diversify its product segments.

Growing regional penetration of the Star brand and adding Coolberg and TBH brands aiding shift towards premium products – GCL sells its FMCG products under the Group's common brand, Star. While the brand presence is strong, it is primarily limited to southern Maharashtra and northern Karnataka, supported by an established distribution network. The company has been consistently expanding its base in terms of facilities and retail/distributor presence and has entered modern trade channels over the years. The company is also planning to expand its brand to other states, although this is yet to pan out meaningfully. Nevertheless, the company's success in this expansion and the impact on profitability after incurring additional costs for the expansion remains to be seen.

Credit challenges

Sustained pressure in operating profitability due to fluctuations in edible oil industry – The operating profit margins declined to 1.1% at the standalone level (2.1% in FY2023 and 8.1% in FY2022) and remained flat at 0.5% at the consolidated level due to volatility in the prices of key raw materials and a sharp contraction in the selling prices of edible oil, its key product segment. This resulted in the entity posting net losses in the last two fiscals. After following an uptrend for the past couple of years, especially in FY2022, edible oil prices witnessed a sharp decline since FY2023. The prices of agro-commodities, including edible and crude oil were volatile in FY2023 due to the Russia-Ukraine war, with the prices of edible oil averaging at ~\$ 2,000 per tonne at the beginning of the year and at ~\$ 1,100 per tonne by the end of FY2023. In FY2024, the price volatility continued along with a shortage of basic raw materials. The procurement season for edible oil raw materials starts after the monsoon

season. Due to the elongated monsoon season in FY2024, seed procurement was delayed, leading to higher seed prices during the procurement season, which declined by the end of FY2024. Price correction in edible oils led to de-stocking at the distributor level. Other factors, such as increased freight costs, subdued rural demand due to erratic monsoons and changes in trade policy by the Government (international) (fluctuations in export/import policies caused fluctuations in prices) also impacted the overall performance.

Exposure to commodity price risks as well as regulatory volatility – The company's profitability remains exposed to volatility in agro-commodity prices and regulatory changes. In FY2022, the company benefitted from strong domestic demand and favourable prices, especially in the edible oil segment. However, sharp contractions in FY2023 and FY2024 due to corrections in agro-commodity prices resulted in significant reductions in profit margins. Although edible oil prices are expected to stabilise in FY2025, GCL's earnings remain vulnerable to such volatilities. ICRA notes that in trading, the company largely follows a back-to-back pricing mechanism, thereby managing its pricing and forex risks.

Weakening in credit metrics including debt coverage – GCL's capital structure remained leveraged over the years, with limited tangible net worth (TNW). Starting from FY2018, the company undertook significant debt, which was substantially higher than its TNW. There was a significant build-up in the tangible net worth (TNW) from FY2021 onwards, rising from Rs. 16.2 crore in FY2020 to Rs. 166.8 crore in FY2022 at the consolidated level. However, weakness was evident from FY2023 onwards due to subdued profitability and write-offs related to discontinued operations. The gearing moderated to 3.7 times as on March 31, 2024 from 3.2 times as on March 31, 2023. Coverage indicators also moderated significantly in FY2023 and FY2024 owing to higher debt and lower profits. The total debt/OPITDA weakened significantly to 53.6 times as on March 31, 2024 from 49.3 times as on March 31, 2023, and from 3.1 times as on March 31, 2022.

However, to support the overall capital structure, the company has received funds of ~Rs. 90 crore (Rs. 50 crore from Ghodawat Retail and remaining through unsecured loans from promoters) in FY2024. As per the management, the promoters are open to infusing further funds if required and plan to invest an additional Rs. 30-35 crore in H1 FY2025. Thus, the capital structure and coverage indicators are expected to improve slightly in FY2025, with the expectation of improved profitability, infusion of funds and moderate debt levels.

Working capital intensive operations – The company's operations are working capital-intensive, which have been accentuated in recent times amid the ongoing volatility in input as well as finished goods prices. The company's funding requirements vary in line with the procurement and processing seasons of its commodities. Moreover, the expanding scale of operations also necessitated high working capital requirements, particularly towards stockholding across product segments 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.

Intense competition in the FMCG space – There is intense competition in the FMCG sector from both organised and unorganised players. While the company's brand presence helps it counter regional competition in the long term and as part of its regional expansion, it will continue to be exposed to competition and will need to continue its investments in branding and distribution.

Liquidity position: Stretched

GCL's liquidity position is stretched. The company has a cushion in working capital limits of ~50% as on March 31, 2024. The company's cash accruals, which moderated in FY2023 and FY2024, are expected to improve to Rs. 10-30 crore over the medium term. The company also has a sizeable debt repayment obligation of ~Rs. 42 crore in FY2025. However, unsecured loans by promoters can be infused as per requirement. There would be minimal maintenance capex of Rs. 10-15 crore in the current fiscal. Nevertheless, ICRA expects the promoters to provide timely funding support in case of exigencies.

Rating sensitivities

Positive factors – ICRA could revise the outlook to stable if GCL is able to demonstrate a sustained improvement in its earnings and credit metrics, while maintaining an adequate liquidity profile.

Negative factors – Negative pressure on GCL's rating could arise if there is a sustained weakening in 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 Group companies, resulting in deterioration of coverage indicators along with worsening liquidity may also trigger a rating downgrade. Specific credit metrics that could lead to a downgrade of GCL's rating include DSCR less than 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Agricultural Food & Products - Edible Oil Food Products - Packaged Foods Agricultural Food & Products - Rice Mills (Non-Basmati)
Parent/Group support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GCL.

About the company

GCL is part of the Sanjay Ghodawat Group. In FY2022, the company was renamed as Ghodawat Consumer Private Limited and later as Ghodawat Consumer Limited from Ghodawat Foods International Private Limited. GCL was incorporated in 2003 and is headquartered in Kolhapur, Maharashtra. At present, the company is involved in a variety of businesses, which includes FMCG manufacturing, contract manufacturing and trading. However, most of its revenue comes from FMCG manufacturing, which includes product segments such as edible oil, rice, snacks, beverages, etc.

Key financial indicators (audited)

GCL Standalone	FY2023	FY2024*
Operating income	1,343.6	1,221.6
PAT	(59.8)	(55.2)
OPBDIT/OI	0.5%	0.5%
PAT/OI	-4.5%	-4.5%
Total outside liabilities/Tangible net worth (times)	3.6	4.2
Total debt/OPBDIT (times)	49.3	53.6
Interest coverage (times)	0.3	0.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 05, 2024	Oct 26, 2023	Jul 18, 2022	-
1	Fund based – Term loan	Long term	113.70	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-
2	Fund based limits – Cash Credit	Long term/Short term	168.50	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-
3	Non-fund based limits	Long term/Short term	30.00	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+	-	-
4	Unallocated limits	Long term/Short term	7.45	[ICRA]BBB- (Negative) / [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund based – Term loan	Simple
Long Term/Short Term - Fund based limits – Cash Credit/WCDL	Simple
Long Term/Short Term - Non-fund based limits	Simple
Unallocated limits	Not applicable

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	Fund based – Term loan	FY2017	8.5-10.0%	FY2030-FY2031	113.70	[ICRA]BBB- (Negative)
NA	Fund based limits – Cash Credit/WCDL	NA	NA	NA	168.50	[ICRA]BBB- (Negative)/[ICRA]A3
NA	Non-fund based limits	NA	NA	NA	30.00	[ICRA]BBB - (Negative)/[ICRA]A3
NA	Unallocated limits	NA	NA	NA	7.45	[ICRA]BBB - (Negative)/[ICRA]A3

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ghodawat Ayurstar LLP	99.98%	Full Consolidation
Ghodawat Bathiya Foods LLP	50.98%	Full Consolidation
Ghodawat Mediatech LLP	99.99%	Full Consolidation
Ghodawat EXIM LLP	60.00%	Full Consolidation
Ghodawat Grains Private Limited	70.00%	Full Consolidation
Ghodawat Foodpro Private Limited	99.99%	Full Consolidation

Source: Company

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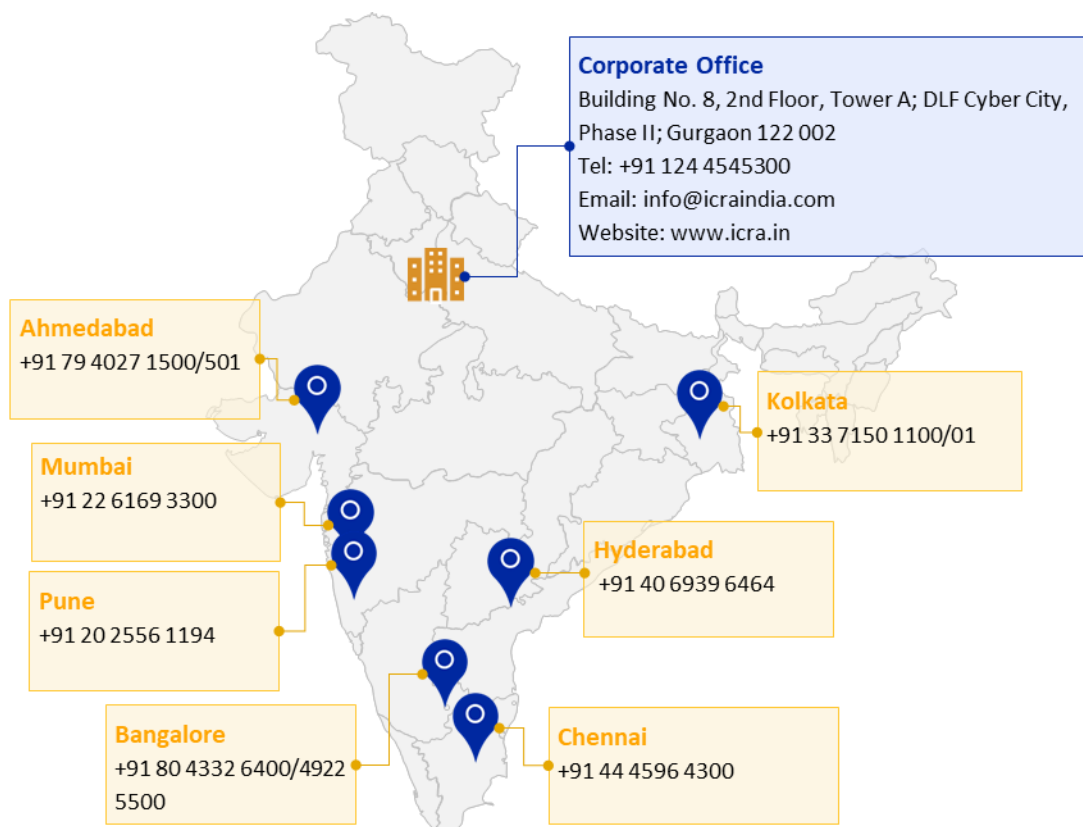


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