

Gokul Overseas

July 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/ Short term bank limits-Fund Based/Non Fund Based	100.00	100.00	[ICRA]BBB-(Stable)/A3 reaffirmed
Long Term/ Short Term Unallocated	20.00	20.00	[ICRA]BBB-(Stable)/A3 reaffirmed
Total	120.00	120.00	

Rating action

ICRA has reaffirmed the [ICRA]BBB- (pronounced ICRA triple B minus) and [ICRA]A3 (pronounced ICRA A three) ratings to the Rs. 100.00 crore¹ long term/short term bank facilities (fund based and non-fund-based limits) of Gokul Overseas (GO). ICRA has further reaffirmed the long-term rating of [ICRA]BBB- (pronounced as ICRA triple B minus) and a short-term rating of [ICRA]A3(pronounced as A three) to Rs 20.00-crore unallocated limits of GO. The outlook on the long-term rating is 'Stable'.

Rationale

While reaffirming 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.

The reaffirmation of ratings continues to derive support from the firm's strong parentage of the Gokul Group, long track record in the castor oil derivatives business, easy access to raw material and ports by virtue of being located in Kandla Special Economic Zone (SEZ) and the extensive experience of the partners in the agro-commodity and oil extraction businesses. The ratings also continue to factor in the modest financial risk profile of the group's flagship company 'Gokul Refoils & Solvent Limited' which is also a partner in the firm.

The ratings are, however, constrained by the risks arising from the concentration of product portfolio towards products like Hydrogenated Castor Oil (HCO) and 12-Hydroxystearic acid (12-HSA) as well as the climatic risks associated with procurement of indigenous oilseeds and consequently castor seed oil and the vulnerability of profitability margins to castor oil price volatility as well as to forex fluctuations. The ratings are further constrained by the inherently low margins in this line of business, high working capital requirements in the business and increase in gearing levels following withdrawal of capital by the out-going partners following the de-merger of the Gokul Group.

Outlook: Stable

Going forward, the sales volume growth would be linked to the demand drivers in the end-user industries viz. chemical, transportation, cosmetics, pharmaceutical and other manufacturing industries, especially in the export markets. ICRA expects moderate sales volume growth in FY2019 in the light of healthy demand indicators. The outlook may be revised to 'Positive' if there is a significant improvement in the company's profitability levels and capital structure. The outlook

¹ 100 lakhs = 1 crore = 10 million

may be revised to 'Negative' if there is any large capex, significant sized capital withdrawals by partners or increase in loans and advances to the group companies.

Key rating drivers

Credit strengths

Strong parentage and extensive experience of the promoters in the edible oil business- Group company GRSL currently holds 7.5% share in GO while the remaining is held by the promoters in personal capacity. 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.

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 edible 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. In the non-edible oil segment, GO is one of the leading players in the castor oil derivatives segment.

Proximity to raw material source and ports- Gujarat accounts for approximately 75% of the total castor seed production in India. Gokul Overseas does not have seed crushing and solvent extraction facilities and directly procures castor oil both from local sources as well as from the group companies. With Gujarat being the main centre for castor seed crop, the firm enjoys the advantage of proximity to its main raw material source. Also, the firm's manufacturing facilities, by virtue of its location, enjoy proximity to the Kandla and Mundra ports resulting in inland freight advantage as the firm derives its entire revenues from exports.

Diversified client base across user industries and geographies- Gokul Overseas currently manufactures about 12-15 derivative products out of which HCO and 12-HSA are the principal products. The derivative products made by the firm find applications in transportation, cosmetics, pharmaceutical, paint and manufacturing industries. The end uses of these products are into adhesives, brake fluids, dyes, hydraulic fluids, inks, leather treatments, lubricating greases, machining oils, paints, pigments, refrigeration lubricants, rubbers, sealants, textiles, washing powders, waxes etc. Because of such wide industry applications of the products made by the firm, it has a diversified customer base spanning across countries like USA, Japan, Europe, China etc.

Credit challenges

Modest financial risk profile - The firm's operating income has witnessed healthy growth of 44% to Rs. 565 crore in FY2018 on account of healthy growth in volumes and realization across most of the product categories. However, operating margins declined from 5.1% in FY2017 to 2.9% in FY2018 on account of the increase in raw material prices, which could not be entirely passed on to the export customers. Moreover, on account of significant interest payments as well as withdrawal of the capital by the partners the capital structure of the firm weakened with gearing at 2.04 times as on March 31, 2018 while Total Debt/OPBDITA stood at 5.39 times. Interest coverage indicators also remained at moderate levels of 1.65 times and NCA/ debt at 12% as on March 31, 2018.

Earning prospects remain vulnerable to volatility in raw material prices and agro climatic risk- Gokul Overseas generally secures itself against volatility in raw material prices by securing the raw material immediately on receipt of firm sales orders. Since bulk of the sales is made to foreign countries, the firm is also exposed to un-expected foreign exchange price movements as the export realizations are generally in US\$ terms. However, the firm tries to cover bulk of the forex exposure through forward contracts. Also, agro-climatic risks related to castor seed production can impact the production and pricing of castor oil which is the main raw material for the firm.

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:

M/s. Gokul Overseas (GO) is a partnership firm established in 1995. The firm is a recognised export house and has a 31920-MTPA manufacturing capacity for hydrogenated castor oil and a 27720-MTPA manufacturing capacity for castor oil derivatives with its manufacturing facility located at Kandla SEZ. Gokul Overseas is part of the Gokul Group of companies, promoted by Mr. Balvantsinh Rajput. He promoted Gokul Refoils and Solvent Limited (GRSL) with Mr. Kanubhai Thakkar in 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 set up an oil refinery at Sidhpur, in Gujarat. Over the years, it expanded its refining capacity and also set up crushing and extraction facilities at different locations. 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 continued to remain under GRSL before its sale in FY2018. The de-merger received the approval and sanction from the Gujarat High Court with the effective date being July 01, 2015. 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 firm reported an operating income of Rs.565 crores and profit after tax of Rs. 9 crore. For FY 2017, the firm reported an operating income of Rs.393 crore and profit after tax of Rs.9 crore.

Key Financial Indicators-Standalone

	FY2017	FY2018(P)
Operating Income (Rs. crore)	393.4	565.4
PAT (Rs. crore)	8.7	8.8
OPBDIT/ OI (%)	5.1%	2.9%
RoCE (%)	16.2%	17.7%
Total Debt/ TNW (times)	1.7	2.0
Total Debt/ OPBDIT (times)	3.7	5.4
Interest coverage (times)	3.4	1.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2015
				July 2018	April 2017	April 2016	January 2015
1 Long Term/Short Term-Fund Based/Non Fund Based	Long Term/Short Term	100.00	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed
2 Long Term/Short Term Unallocated	Long Term/Short Term	20.00	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed	[ICRA]BBB-(Stable)/[ICRA]A3 reaffirmed

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	Long Term/Short Term-Fund Based/Non Fund Based	NA	NA	-	100.00	[ICRA]BBB-(Stable)/[ICRA]A3
NA	Long Term/ Short Term Unallocated	NA	NA	-	20.00	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Gokul Overseas

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