



Gowthami Solvent Oils Limited

Instrument	Amount (In Rs. Crore)	Rating Action
Term loan facilities	29.67 (revised from 38.10)	[ICRA]BB (Stable)
Cash Credit	37.00	[ICRA]BB (Stable)
Non-fund based facilities	4.00	[ICRA]A4+
Unallocated	9.65 (revised from 1.22)	[ICRA]BB (Stable)

ICRA has reaffirmed the long-term rating at [ICRA]BB (pronounced ICRA double B) to Rs 29.67 crore* (revised from Rs.38.10 crore) term loan facilities, Rs.37.00 crore cash credit facility and Rs.9.65 crore (revised from Rs.1.22 crore) unallocated facilities of The Gowthami Solvent Oils Limited (TGSOL)†. ICRA has also reaffirmed the short term rating at [ICRA]A4+ (pronounced ICRA A four plus) to Rs 4.00 crore non fund based limits of the company. The outlook for the long term rating is stable.

The ratings reaffirmation favorably factors in the longstanding experience of promoters in the oil & cotton industry, successful ramp up of capacity expansion in high margin spinning division and favourable prospects for rice bran oil due to its significant health benefits.

However the ratings are constrained by 12.77% revenue de-growth in operating income in FY15 on account of decline in volumes in the solvent division owing to constraints in raw material availability. The ratings also remain constrained by the vulnerability of margins to cotton and yarn price fluctuations coupled with the intense competition in the fragmented spinning industry which restricts pricing flexibility and vulnerability to regulatory risks with regards to minimum support price for kapas and export restrictions on kapas and yarn. The ratings also reflect the company's relatively small scale of operations in rice bran solvent extraction, the fragmented nature of the domestic edible oil industry, the intense competition from larger and well-established players in the branded segment, threat from cheaper substitutes (particularly palm oil) and TGSOL's limited market presence. The ratings also factor in the low profitability in the oil processing business and TGSOL's overall stretched financial profile characterized by high gearing, large debt repayments and moderate coverage indicators.

ICRA also takes note of the debt funded capital expenditure plans towards capacity expansion of spinning division could adversely impact the capital structure and coverage indicators, and stretch the liquidity position in the medium term.

Company Profile

The Gowthami Solvent Oils Limited (TGSOL) was incorporated in 1974 by the Gowthami Group of Companies (GGC) as a solvent extractor of sunflower and rice bran oil (RBO) with a capacity of 400 tons per day (TPD). The company has a crude oil refinery for further value addition with a refining capacity of 60 TPD. The company also has a 2.75 MW co-generation biomass power plant and 43,200 spindle cotton spinning facility. The facilities of TGSOL are located in Tanuku (Andhra Pradesh).

Recent Results

For FY2015, the company has reported profit after tax of 5.69 crore on an operating income of 213.45 crore as against a profit after tax of Rs. 1.30 crore on an operating income of Rs. 230.53 crore during FY2014.

October 2015

* 100 lakh = 1 crore = 10 million

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



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