

October 04, 2019

Gokul Refoils & Solvent Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term (Proposed)	50.00	50.00	[ICRA]BBB(Stable)/A3+; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Rationale

While assigning the ratings, ICRA has taken a consolidated view of Gokul Refoils & Solvent Limited (GRSL) and Gokul Agri International Limited (GAIL), which is a wholly-owned subsidiary of GRSL and the entities are operating under the same brand, besides having common promoters and management structure.

The reaffirmation of ratings factors in the satisfactory utilisation levels at its various plants, along with the Group's established position in the edible oil industry. The ratings note the extensive track record of the promoters in the edible oil industry with a diversified product portfolio and the flexibility to change the product mix according to price trends in the market. The ratings consider the location-specific advantage, arising from its 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, while providing an upside to the volumes. Further, ICRA factors in the moderate gearing, which stood at 0.9 times as on March 31, 2019 supported by de-leveraging following the unit sale at Haldia in FY2018. Moreover, the ratings continue to favourably factor in the risk management practices in place to hedge forex and commodity prices.

The ratings, however, remain constrained by the inherently thin margins in this line of business, modest interest coverage metrics, its moderate market position in the relatively high-margin fragmented retail segment, which exposes the company to competition from both unorganised 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 the Indonesian duty structure. Further, its profitability remains exposed to adverse fluctuations in commodity prices and exchange rates. However, it has a hedging policy in place, as per which it hedges a large share of its exposures, besides reducing its exposure towards imported oils. ICRA notes that any significant direct or indirect support extended to non-core business areas of the Group by the company would remain a key rating sensitivity.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that given the favourable demand outlook and large processing/refining capacities, GRSL is expected to report steady revenue growth over the medium term.

Key rating drivers and their description

Credit strengths

Established experience of promoters in edible oil business – The Gokul Group (GRSL and GAIL) is an integrated player in the business of oilseed crushing, de-oiled cake extraction, refining of edible and castor oil, manufacturing castor oil derivatives and trading in commodities. The Group is promoted by Mr. Balvantsinh Rajput and Mr. Dharmendra Rajput having extensive experience in the edible oil industry spanning more than three decades.

Group positioned among leading edible and non-edible oil manufacturers in India – The Gokul Group is one of the larger players in the fragmented refined edible/non-edible (castor) oil industry and enjoys a healthy market position in the bulk segment of edible oil market. The contribution from the retail segment remained at ~30%. However, sustained efforts are being made to increase the presence of its brand across several states in North and Central India. The company sells refined oil under the brand name of Gokul, Rozana, Gurjari and Vivaan. It has been continuously expanding the distribution network that, at present, caters to several states through C&F agents and depots, several hundred dealers and retail points.

Diversified product portfolio imparts flexibility in changing product mix according to price trends in market – The company produces a wide variety of edible oils to cater to the needs of all consumer and geographical segments, which mitigates the seasonality risk associated with any product. Its product portfolio mainly includes refined oil (95% of total revenues for FY2019) and de-oiled cake (4% of total revenues in FY2019). The product mix for refined oil segment is dominated by castor oil, mustard oil with lower contribution of palm oil, soya bean oil and cottonseed oil. Castor oil contributed to 32% of the total oil revenue for FY2019, whereas mustard oil and palm oil contributed 25% and 17%. The contribution from soya bean oil stood at 20%, while cottonseed oil and other edible oils had low contribution at 5% in FY2019. Moreover, the company 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 the realisation for most edible oils remained stable in FY2019, soya bean prices increased sharply, while mustard oil prices witnessed a moderate rise. The average sales realisation in the oil segment for FY2019 for GAIL stood at ~Rs. 97/kg (~Rs. 95/kg in FY2018) for castor oil, ~Rs. 86/kg (~Rs. 79/kg in FY2018) for mustard oil, ~Rs. 64/kg (~Rs. 55/kg in FY2018) for soya bean oil, ~Rs. 46/kg (~Rs.50/kg in FY2018) for palm oil and ~Rs. 81/kg (~Rs.73/kg in FY2018) for cottonseed oil.

Financial risk profile characterised by moderate gearing and TOL/TNW – The company's gearing level improved to 0.9 times as on March 31, 2019 from 2.5 times as on March 31, 2017, while TOL/TNW position reduced to 1.1 times from 2.8 times during the same period, mainly aided by de-leveraging undertaken with proceeds from the sale of the Haldia unit in FY2018.

Credit challenges

Thin operating margins and net margins – The ratings remained constrained by the inherently thin margins in this line of business which have remained range-bound between 1.5%-2.5%. The operating margins were lower at 1.9% in FY2019 vis-à-vis 2.3% in FY2018 due to higher raw material costs. The net margins remained subdued at 0.5% in FY2019. The cash accruals stood at Rs. 18 crore in FY2019, which remains adequate with no repayment obligations and no major capex plan. However, any significant increase in its working capital requirement may result in additional capital requirement.

Reduced scale of operations post demerger and unit sale – There has been a significant decline in the company’s overall scale of operations following the Group de-merger in FY2015 and subsequent unit sale at Haldia in FY2018. Accordingly, its overall scale reduced to Rs. 2,001 crore in FY2018 from Rs. 5,869 crore in FY2015. However, it has reported a growth of ~10% in FY2019 and the scale improved to Rs. 2,205 crore and going forward it is expected to improve further with available processing capacities and favourable demand outlook.

Profitability vulnerable to changes in duty differential between crude and refined oil, volatile raw material prices and agro-climatic risk – 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 the Indonesian duty structure. Further, its profitability remains exposed to adverse fluctuations in commodity prices and exchange rates. However, 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 rating sensitivity – At present, the Group has no large-scale capex plans in the near to medium term in GRSL, GAIL and GO. However, 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. 18.8 crore as on March 31, 2019, extended mainly out of proceeds from the sale of the Haldia unit.

Liquidity position: Adequate

The liquidity profile for GAIL remains adequate with the average utilisation of the Rs. 100-crore fund-based limits remaining at ~49% over the last 15 months that ended in June 2019, whereas the utilisation of non-fund-based limits of Rs. 362 crore remained at ~70% for last 15 months that ended in June 2019. The access to unutilised working capital facilities lends comfort from the credit perspective. Moreover, GAIL’s liquidity profile is supported by no outstanding repayment obligation and limited capex plans in the near to medium term, as well as support from the promoters who have infused unsecured loans in the past.

Rating sensitivities

Positive triggers – ICRA may upgrade GAIL’s rating if there is improvement in operating profitability to 4.0% leading to interest coverage of above 2.0 times on a sustained basis.

Negative triggers – Negative pressure on GAIL’s rating could arise if a deterioration in GAIL’s profitability and cash accrual results in interest coverage of less than 1.1 times and/or a stretch in working capital cycle adversely impacts its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology on Edible Oil (Solvent Extraction)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among the same

About the company

GRSL was promoted by Mr. Balvantsinh Rajput and 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. The promoters set up a castor oil refinery and castor oil derivatives manufacturing facility under Gokul Overseas (GO) in 1995. 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 the Gujarat High Court with the effective date being July 01, 2015. Furthermore, in FY2018, the company sold its Haldia unit in an all cash deal to Adani Wilmar Limited. At present, GRSL's operates its sole unit at Sidhpur (operating under GAIL).

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

Key financial indicators (Audited)-Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	2,001	2,205
PAT (Rs. crore)	9	12
OPBDIT/ OI (%)	2.3%	1.9%
RoCE (%)	5.7%	9.0%
Total Debt/ TNW (times)	1.1	0.9
Total Debt/ OPBDIT (times)	6.8	6.4
Interest Coverage (times)	1.4	1.3
DSCR	2.2	1.6

(Source: Company, ICRA research)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Long term/Short Term-Fund Based/Non Fund Based (Proposed)	Long Term/Short Term	50.00	-	4 October 2019 [ICRA]BBB (Stable)/ A3+	6 July 2018 [ICRA]BBB (Stable)/ A3+	-	-

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	Based/Non Fund Based (Proposed)	NA	NA	-	50.00	[ICRA]BBB(Stable)/A3+

Source: Gokul Refoils& Solvent Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gokul Refoils& Solvent Limited	Holding Company	Full Consolidation
Gokul Agri International Limited	100%	Full Consolidation

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