August 01, 2019

Gokul Agro Resources Limited: Ratings reaffirmed at [ICRA]BBB-/[ICRA]A3; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based- EPC/CC/Others	200.00	200.00	[ICRA]BBB- reaffirmed; outlook revised to Stable from Negative
Fund-based-Term Loan	105.50	105.50	[ICRA]BBB- reaffirmed; outlook revised to Stable from Negative
Non-fund Based- LC/BG	930.20	930.20	[ICRA]A3 reaffirmed
Total	**1235.70**	**1235.70**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation and revision of outlook to Stable takes into account the improvement in margins and cash accruals of Gokul Agro Resources Limited (GARL or the company) in H2 FY2019 after reporting a large forex loss in H1 FY2019 due to significant currency rate fluctuations. The operating performance remains satisfactory and ICRA expects the same to be sustained over the medium term. The ratings factor in GARL's established position among the leading edible oil manufacturers with an extensive track record of its promoters in the edible oil industry and a diversified product portfolio. The ratings consider the location-specific advantage arising from the company's proximity to ports and oilseed growing belts as well as the integrated nature of operations at its Gandhidham plant with sufficient capacity.

The ratings, however, are constrained by the inherently thin operating margins, high total outside liabilities/tangible net worth (TOL/TNW) and weak debt protection metrics along with GARL's moderate market position in the relatively high-margin retail segment and highly fragmented industry. The ratings are constrained by the vulnerability of the company's profitability to the duty differential between crude and refined oil and the climatic risks associated with the procurement of indigenous oilseeds and the regulatory changes with respect to domestic and the Indonesian duty structure. Further, its profitability is exposed to adverse fluctuations in commodity prices and exchange rates with GARL reporting a net forex loss of Rs. 25.4 crore in FY2019 due to significant untoward currency rate fluctuation despite its firm hedging policy.

Outlook: Stable

ICRA believes that given the favourable demand outlook and large processing/refining capacities, GARL's operating income (OI) is expected to show moderate growth over the medium term. The profitability indicators are likely to remain modest in line with the industry trend. The outlook may be revised to Positive if there is a significant improvement in the company's revenues, return indicators and coverage metrics. The outlook may be revised to Negative if cash accrual is lower than expected or if the financial risk profile deteriorates due to price fluctuations of imported oils, shrinkage of duty differential between crude and refined oil, increased unhedged forex exposure or any large debt-funded capex.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the edible oil business - GARL 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. GARL is promoted by Mr. Kanubhai Thakkar who, along with Mr. Balvantsinh Rajput, co-promoted Gokul Refoils & Solvent Limited (GRSL) in 1982. They have extensive experience in the edible oil industry spanning more than three decades. The Gokul Group, however, demerged in FY2016 with GARL and now operates under the management of Mr. Kanubhai Thakkar.

Group positioned among leading edible and non-edible oil manufacturers in India - GARL is one of the larger players in the fragmented refined edible/non-edible (castor) oil industry. It enjoys a good market position in the bulk segment of edible oil market. The contribution from the retail segment has remained low, however, sustained efforts are being made to increase the presence of its retail brands Zaika, Mahek, Pride, Richfield and Vitalife. The company has been continuously expanding its distribution network, which at present caters to several states through clearing and forwarding (C&F) agents and depots, several hundred dealers and retail points.

Diversified product portfolio across various types of oils imparts flexibility in changing product mix - GARL 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 particular product. The company's product portfolio mainly includes refined oils (over 85% of revenues in FY2019), de-oiled cake, castor oil derivatives and vanaspati. The product mix under the refined oil segment is dominated by palm oil (45% of refined oil revenue in FY2019), soya bean oil, mustard oil and castor oil. However, the production of castor oil reduced significantly in FY2019 due to lower availability of castor seeds. The realisation for palm oil was higher by 11% YoY in FY2019, while for other major refined oils, it grew at a comparatively lower rate.

Location-specific advantage arising from its presence close to ports and oilseed growing belt - The company's manufacturing facility is an integrated facility and is situated at Gandhidham, Gujarat. The plant is strategically located in terms of its proximity to ports. It is located very close to the Kandla Port (about 20 km away) and most of the imports and exports take place through the same.

Credit challenges

Vulnerability of profitability to unfavourable currency fluctuation and financing cost - The significant volatility in exchange rates during H1 FY2019 resulted in GARL booking a forex loss of Rs. 25.4 crore in FY2019. The company has been unable to pass on the untoward forex fluctuations to the customers, given the strong competition in the edible oil industry. Additionally, the company's interest and finance cost increased significantly in FY2019 on a YoY basis, given the strategic decision to reduce its trading business with increased focus on manufacturing in the standalone company as well as due to increased Libor rates in the international market. This has adversely affected GARL's overall net profitability with a consolidated net profit of Rs. 10.9 crore in FY2019 vis-à-vis a net profit of Rs. 15.5 crore in FY2018.

Thin operating margin - The ratings are constrained by the inherently thin margins in this line of business. Even though the operating profitability witnessed an improvement and stood at 3.1% in FY2019 vis-a-vis 2.1% in FY2018 mainly on the back of a change in sales mix and improved cost structure, it still remained low.

Profitability exposed to changes in duty differential between crude and refined oil, volatile raw material prices and agro-climatic risk - The ratings are 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, GARL's profitability is exposed to adverse fluctuations in commodity prices and exchange rates despite the company hedging 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 affects the profitability of players like GARL in a volatile pricing scenario.

Financial risk profile characterised by high gearing and moderate coverage indicators - The company's capital structure has been highly leveraged historically, despite some improvement in FY2019. The consolidated gearing stood at 1.3 times as on March 31, 2019 as against 1.6 times as on March 31, 2018. Moreover, the TOL/TNW position, though improved steadily over the last three years, still remained high at 4.5 times as on March 31, 2019. These indicators are likely to show significant improvement, going forward, with the conversion of the outstanding Rs. 45-crore interest-free unsecured loans from promoters into equity. Furthermore, the coverage indicators remained moderate with interest coverage and debt coverage of 1.7 times and 1.3 times, respectively, in FY2019.

Liquidity position

The company's liquidity profile remains moderate given the high utilisation of its working capital limits and low free cash balance of Rs. 16.9 crore available to support any additional liquidity needs going forward. GARL's liquidity profile is further constrained by its high working capital requirements and scheduled repayments of Rs. 18-20 crore annually over the next three years for the debt-funded capacity expansion undertaken in FY2017-FY2018. However, the liquidity has been supported by unsecured loans from promoters to the extent of Rs. 45 crore in the past, which is expected to be converted into equity in FY2020.

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 considered the consolidated financials of Gokul Agro Resources Limited. As on March 31, 2019, the company had one direct subsidiary and one step-down subsidiary, the details of which are enlisted in Annexure-2

About the company

GARL got formed post the demerger of the erstwhile GRSL in July 2015. It is operated by Mr. Kanubhai Thakkar and his family. The company is in the business of refining and marketing of edible oils. It has a seed processing capacity of 2,800 tonne per day (TPD), cake extraction capacity of 850 TPD, oil refining capacity of 1900 TPD and vanaspati manufacturing capacity of 100 TPD at its plant located at Gandhidham.

Erstwhile GRSL was jointly 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. Over the years, it expanded its refining capacity and also set up crushing and extraction facilities at different locations. GRSL demerged its Gandhidham unit into GARL.

In FY2019, GARL reported a net profit of Rs. 10.9 crore on an OI of Rs. 4,545.8 crore, as compared to a net profit of Rs. 15.5 crore on an OI of Rs. 5,060.7 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	5,060.7	4,545.8
PAT (Rs. crore)	15.5	10.9
OPBDIT/ OI (%)	2.1%	3.1%
RoCE (%)	17.3%	17.9%
Total Debt/ TNW (times)	1.6	1.3
Total Debt/ OPBDIT (times)	3.2	2.2
Interest Coverage (times)	1.5	1.7
NWC/ OI (%)	3.5%	3.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2019	Date & Rating in FY2019 November 2018	 July 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 April 2016
1	Fund Based - EPC/CC/Others	Long Term	200.00	186.50	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund Based - Term Loan	Long Term	105.50	72.11	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Non Fund Based-LC/BG	Short Term	930.20	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]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	Fund Based - EPC/CC/Others	NA	NA	NA	200.00	[ICRA]BBB- (Stable)
NA	Term Loan - 1	FY2017	NA	FY2022	30.00	[ICRA]BBB-(Stable)
NA	Term Loan - 2	FY2018	NA	FY2023	22.50	[ICRA]BBB- (Stable)
NA	Term Loan - 3	FY2019	NA	FY2024	35.00	[ICRA]BBB- (Stable)
NA	Term Loan - 4 (Proposed)	NA	NA	NA	18.00	[ICRA]BBB- (Stable)
NA	Non Fund Based-LC/BG	NA	NA	NA	930.20	[ICRA]A3

Source: Gokul Agro Resources Limited

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Maurigo Pte. Ltd.	100.00%	Full Consolidation
Riya International Pte. Ltd.	Step-down subsidiary	Full Consolidation

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About ICRA Limited:

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