

August 12, 2020

Gokul Agro Resources Limited: Rating reaffirmed at [ICRA]BBB-(Stable)/A3

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-(Stable) reaffirmed
Fund-based-Term Loan	105.50	105.50	[ICRA]BBB-(Stable) reaffirmed
Non-fund Based- LC/BG	930.20	930.20	[ICRA]A3 reaffirmed
Total	1,235.70	1,235.70	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the established position of Gokul Agro Resources Limited (GARL) among the leading edible oil manufacturers in terms of scale with an extensive track record of its promoters in the edible oil industry and a diversified product portfolio. The rating considers 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. The rating also takes into consideration the satisfactory operating and financial performance of the company in FY2020 with gradual improvement in the capitalisation and coverage metrics, as expected. ICRA notes that the company increased the low-margin trading activities under its step-down subsidiary in FY2020, resulting in significant increase in scale of operations with lower addition to the operating profit. ICRA also notes that given the categorisation of edible oil as an essential commodity during the nationwide phased lockdown undertaken over Q1 FY2021 to curb the spread of Covid-19, GARL's operations were not severely impacted, barring the initial few weeks of April 2020 when logistics remained a constraint.

The rating, however, remains constrained by the inherently thin operating margins, leveraged capital structure, high total outside liabilities/tangible net worth (TOL/TNW) and weak debt protection metrics. ICRA notes that GARL converted Rs. 45-crore unsecured loans from promoters outstanding as on September 30, 2019 into non-convertible non-cumulative redeemable preference shares in Q4 FY2020 as planned, resulting in an improvement in the net worth position of the company as on March 31, 2020. The rating also factors in GARL's moderate market position in the relatively high-margin retail segment and highly fragmented nature of the industry. The rating is further 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. 25.5 crore in FY2019 and Rs. 20.1 crore in FY2020 due to significant untoward currency rate fluctuation despite its firm hedging policy.

The Stable outlook reflects ICRA's expectations 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.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the edible oil business - GARL is an integrated player in the business of oilseed crushing, de-oiled cake extraction, edible and castor oil refining, manufacturing of 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 the edible oil market. The contribution from the retail segment has remained low; although 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 FY2020), de-oiled cake, castor oil derivatives and vegetable cooking oil (*vanaspati*). The product mix under the refined oil segment is dominated by palm oil driving ~56% of GARL's refined oil revenue in FY2020 (against 45% in FY2019). Other oils include soya bean oil, castor oil, mustard oil, etc. The production of soya bean and mustard oil reduced significantly in FY2020 due to lower margin available, given the revised minimum support price (MSP) for oilseeds. Consequently, their sale was replaced by that of palm oil.

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

Credit challenges

Thin operating margin; margin declined in FY2020 due to increased trading activities - The rating is constrained by the inherently thin operating margins for companies in this line of business. At a consolidated level, GARL's operating margin moderated to 2.5% in FY2020 from 3.1% in the previous year mainly due to significant increase in the trading activities at its step-down subsidiary, Riya International Pte. Ltd., as well as at the standalone entity level. Such low margin trading activities resulted in a significant increase in operating income with modest addition to the operating profit.

Vulnerability of profitability to unfavourable currency fluctuation - While GARL follows the practice of hedging majority its forex exposure, the significant volatility in exchange rates during H1 FY2019 and H2 FY2020 resulted in GARL booking a forex loss of Rs. 25.5 crore in FY2019 and Rs. 20.1 crore in FY2020. The company has been unable to completely pass on the untoward forex fluctuations to its customers, given the strong competition in the edible oil industry. This has adversely affected GARL's overall net profitability. However, given company's hedging policy, the forex loss reported in Q1 FY2021 remained nil.

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. However, government of India's directive to place the import of refined palm oil in India under the 'restricted' category since January 2020 has supported the domestic refiners to some extent. Further, GARL's profitability is exposed to adverse fluctuations in commodity prices, despite the company hedging a large share of its exposures. The low margin nature of the industry, dependence on climatic factors for a good harvest and high import dependence for meeting edible oil requirements, affect 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, although gradual improvement has been witnessed over past two years. The consolidated gearing improved to 0.9 time as on March 31, 2020 as against 1.3 times as on March 31, 2019. This is mainly attributable to the increase in net worth by the conversion of Rs. 45 crore unsecured loan outstanding from promoters as on September 30, 2019 into 45 lakh 0.01% non-convertible non-cumulative redeemable preference shares of Rs. 100 each with a lock-in period of 15 years. Moreover, the TOL/TNW also continued to improve and stood at 3.9 times as on March 31, 2020 against 4.5 times as on March 31, 2019; however, it still remained high. Furthermore, the coverage indicators remained moderate with interest coverage and debt coverage of 1.7 times and 1.2 times, respectively, in FY2020.

Liquidity position: Adequate

At a consolidated level, GARL's liquidity position remains adequate with a healthy annual fund flow from operations of Rs. 50.8 crore in FY2020 and surplus free cash and liquid investments of Rs. 56.6 crore as on March 31, 2020. The liquidity position improved in FY2020 with healthy cash accruals and reduction in working capital intensity with lower inventory level. GARL also had sanctioned and partly-interchangeable working capital facilities of Rs. 1,129.5 crore, the average utilisation of which remained high at 95% over the past 12 months. GARL's liquidity profile is further constrained by its scheduled repayments of Rs. 18-20 crore annually over the next two years. However, the liquidity has been supported by unsecured loans from promoters to the extent of Rs. 45 crore in the past, which has now been fully converted into non-convertible non-cumulative redeemable preference shares in Q4 FY2020 as planned.

Rating sensitivities

Positive triggers: Improvement and sustenance of interest coverage metrics at over 2.0 times coupled with healthy scale of operations could lead to a rating upgrade.

Negative triggers: Negative pressure on the rating could arise if there is deterioration in operating profitability on a sustained basis or any material debt-funded capex that will adversely impact the coverage indicators and cash flows of the company. Any weakening in the liquidity profile, sustained increase in the working capital intensity or any material unhedged forex exposure could also exert negative pressure on the rating.

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, 2020, the company had one direct subsidiary and one step-down subsidiary, the details of which are enlisted in Annexure-2

About the company

GARL was established following the demerger of the erstwhile GRSL in July 2015. It is operated by Mr. Kanubhai Thakkar and family. The company is in the business of refining and marketing 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 1,900 TPD and vegetable oil manufacturing capacity of 100 TPD at its Gandhidham plant.

The 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 FY2020, GARL reported a net profit of Rs. 19.2 crore on an OI of Rs. 5,587.3 crore, over a net profit of Rs. 10.9 crore on an OI of Rs. 4,545.8 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	4,545.8	5,587.3
PAT (Rs. crore)	10.9	19.2
OPBDIT/OI (%)	3.1%	2.5%
RoCE (%)	17.9%	20.1%
Total Outside Liabilities/Tangible Networkth (times)	4.5	3.9
Total Debt/OPBDIT (times)	2.2	1.9
Interest coverage (times)	1.7	1.7
DSCR (times)	1.3	1.2

Source: GARL's consolidated financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 12-Aug-2020	Date & Rating in FY2020 01-Aug-2019	Date & Rating in FY2019		Date & Rating in FY2018	
						21-Nov-2018	27-Jul-2018	07-Apr-2017	
1	Fund Based - EPC/CC/Others	Long Term	200.00	169.30	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund Based - Term Loan	Long Term	105.50	52.70	[ICRA]BBB- (Stable)	[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	40.00	[ICRA]BBB-(Stable)
NA	Term Loan - 2	FY2018	NA	FY2023	22.50	[ICRA]BBB-(Stable)
NA	Term Loan - 3	FY2019	NA	FY2024	25.00	[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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