Gokul Agro Resources Limited

November 21, 2018

Summary of rated instruments

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

Material event

Gokul Agro Resources Limited (GARL) has announced its quarterly result for Q2FY2019 on November 13, 2018. The company reported operating income of Rs. 1,222.1 crore with a net loss of Rs. 6.3 crore in Q2FY2019 against operating income of Rs. 1,069.4 crore with a net profit of Rs. 5.0 crore in Q2FY2018.

Impact of the material event

ICRA has downgraded the long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BBB (pronounced as ICRA triple B) on the Rs. 200.00-crore[1] fund based facilities and the Rs. 105.50-crore term loans of Gokul Agro Resources Limited (GARL or the company). The outlook on the long-term rating has been revised to 'Negative' from 'Stable'. ICRA has also downgraded the short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A3+ (pronounced ICRA A three plus) on the Rs. 930.20-crore non-fund based bank facilities of GARL.

On a y-o-y basis, though the operating income registered a growth of 14.3% in Q2FY2019, the company recorded a net loss Rs. 6.3 crore on the back of increased financing cost and large forex loss. The net loss recorded by the company result in a downward revision of the expected cash flow generation and debt coverage indicators for FY2019.

The previous detailed rating rationale is available on the following link: Click here

Rationale

The rating and outlook revision follow the weakening in the performance of GARL in Q2FY2019, following the large forex losses and increased financing cost which the company was unable to pass on to the consumers resulting in net losses. Consequently, the cash accruals for the year are expected to remain lower than expectations in FY2019 and thereby result in weakened debt coverage indicators. ICRA notes that a portion of the forex losses booked are notional and could see reversal in case of appreciation of the rupee. ICRA also notes the tightening of the liquidity profile of the company given the high utilisation of working capital facilities. Amidst the currency volatility and strong competitive pressures, the ability of the company to retain its margins and generate adequate cash flows to meets its scheduled repayments would be critical. The ratings continue to factor in the inherently thin operating margins, high TOL/TNW and weak debt protection matrices, moderate market position of the company in the relatively high margin retail segment and highly fragmented nature of industry. The ratings are also constrained by the vulnerability of the company's profitability to the

[1] *100 lakh = 1 crore = 10 million*

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 Indonesian duty structure. Further, profitability also remains exposed to adverse fluctuations in commodity prices and exchange rates; although the company has implemented a firm hedging policy.

The ratings however continue to factor in the established position of the company among leading edible oil manufacturers, long track record of the promoters in the edible oil industry and a diversified product portfolio. The ratings also consider the locational advantage arising from the proximity to ports as well as oilseed growing belts as well as the integrated nature of operations at Gandhidham plant with sufficient capacity.

Outlook: Negative

The 'Negative' outlook factors in the possibility of further weakening of the cash flows in subsequent quarters. The outlook may be revised to 'Stable' if there is an improvement in the company's performance resulting in improved return indicators and coverage metrics. The ratings may be downgraded if the financial risk profile deteriorates due to to price fluctuations of imported oils, reduction in the duty differential between crude and refined oil and increasing forex exposure.

Key rating drivers

Credit strengths

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

Group positioned among leading edible and non-edible oil manufacturers in the country - GARL is one of the larger players in the fragmented refined edible/non-edible (castor) oil industry and 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" & "Vitalife". 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.

Diversified product portfolio across various types of oils; imparts flexibility in changing product mix according to price trends and market conditions - GARL produces a wide variety of edible oils to cater to the needs of all consumer and geographic segments which mitigates the seasonality risk associated with any particular product. The product portfolio of GARL mainly includes refined oils (85% of revenues in FY2018), de-oiled cake and Vanaspati. The product mix for refined oil segment is dominated by palm oil, soyabean oil and castor oil. While realization for most edible oils remained stable in FY2018, castor oil prices witnessed a sharp up-swing and the Company benefitted from this increased realization.

Credit challenges

Vulnerability of profitability to unfavourable currency fluctuation and financing cost - The significant weakening of rupee since the beginning of the current financial year led to GARL booking a forex loss of about Rs. 25 crore in H1FY2019. The company has been unable to pass on these forex losses to the customers given the strong competitive pressure in the edible-oil industry. Additionally, the interest and finance cost of the company increased significantly in H1FY2019 on a y-o-y basis given the company's decision to reduce the trading business. This has adversely affected the company's profitability with it reporting a net loss of Rs. 5.1 crore in H1FY2019 vis-à-vis a net profit of Rs. 9.8 crore in H1FY2018.

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 2.4% in FY2018 vis-a-vis 1.9% in FY2017 largely on the back of change in sales mix, it still remained low.

Earning prospects remain vulnerable to changes in duty differential between crude and refined oil, volatility in 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 Indonesian duty structure. Further, profitability also remains exposed to adverse fluctuations in commodity prices and exchange rates; although 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 GARL in a volatile pricing scenario.

Financial risk profile characterised by high gearing and TOL/TNW - The capital structure of GARL has been highly leveraged with gearing levels increasing y-o-y over the past two years; gearing stood at 1.7 times in FY2018. Also, the TOL/TNW position remained high at 5.1 times in FY2018 which has worsened in H1FY2019. Furthermore, the coverage indicators remain weak with interest coverage and debt coverage of 1.5 times and 1.4 times respectively in FY2018 which further weakened to 1.1 times each in H1FY2019.

Liquidity position

The liquidity profile of the company remains tight given the high utilisation of its working capital limits and low unencumbered cash and bank balance available to support any additional liquidity needs going forward. GARL's liquidity profile has been further constrained by capacity expansion undertaken in FY2018 and H1FY2019. However, the liquidity has been supported to some extent by unsecured loans from promoters to the extent of Rs. 45 crore in the past (Rs. 20 crores in FY2018).

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	The ratings are based on the standalone financial profile of the company

About the company

GARL got formed post the demerger of the erstwhile Gokul Refoils and Solvent Limited (GRSL) in July 2015. It is operated by Mr. Kanubhai Thakkar and his family. GARL is in the business of refining and marketing of edible oils. It has seed processing capacity of 2,800 tonnes 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 & Mr. Kanubhai Thakkar in the year 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 setup crushing and extraction facilities at different locations. GRSL demerged its Gandhidham unit into GARL.

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