November 13, 2020

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 (Gokul Agri), which is a wholly-owned subsidiary of GRSL and the entities operate under the same brand, besides having common promoters and management structure.

The ratings reaffirmation factors in the satisfactory utilisation levels at its various plants, along with the Gokul 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 0.8 times as on March 31, 2020. 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. ICRA notes the recently concluded buyback of shares by GRSL, which resulted in an outflow of around Rs. 49 crore (including taxes). Despite the buyback, the liquidity position is expected to remain adequate with access to undrawn working capital limits and no repayment obligations. 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 the 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, which allows it to hedge a large share of its exposures, besides reducing its exposure towards imported oils. ICRA also 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, the essential nature of the products 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 the promoters in edible oil business – The Gokul Group (GRSL and Gokul Agri) 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 an 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 edible oil segment. 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 - 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 (96% of total revenues for FY2020) and de-oiled cake (4% of total revenues in FY2020). 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 48% of the total oil revenue for FY2020, whereas mustard oil and palm oil contributed 19% and 9%. The contribution from soya bean oil stood at 14%, while cottonseed oil and other edible oils had a low contribution at 4% and 6% respectively in FY2020. 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 improved in FY2020, castor oil prices increased sharply, while mustard oil prices witnessed a moderate rise. The average sales realisation in the oil segment for FY2020 for Gokul Agri stood at ~Rs. 107/kg (~Rs. 97/kg in FY2019) for castor oil, ~Rs. 89/kg (~Rs. 86/kg in FY2019) for mustard oil, ~Rs. 75/kg (~Rs. 64/kg in FY2019) for soya bean oil, ~Rs. 47/kg (~Rs. 46/kg in FY2019) for palm oil and ~Rs. 85/kg (~Rs. 81/kg in FY2019) for cottonseed oil.

Financial risk profile characterised by moderate gearing and TOL/TNW – The company's gearing level improved to 0.8 times as on March 31, 2020 from 2.5 times as on March 31, 2017, while TOL/TNW position reduced to 1.0 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 higher at 2.1% in FY2020 vis-à-vis 1.9% in FY2019 due to higher realisations. The net margins remained subdued at 0.9% in FY2020. The cash accruals stood at Rs. 30 crore in FY2020, which remains adequate with no repayment obligations and no major capex plans. However, any significant increase in its working capital requirement may result in the infusion of additional capital.

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. In FY2020, the top line remained stable at Rs. 2,170 crore against Rs. 2,205 crore in FY2019. Going forward, it is expected to improve 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 to meet 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 a likely rating sensitivity – At present, the Group has no large-scale capex plans in the near to medium term in GRSL, Gokul Agri 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. 20.1 crore as on March 31, 2020, extended mainly out of proceeds from the sale of the Haldia unit.

Liquidity position: Adequate

The liquidity is primarily driven by Gokul Agri since the operations are housed under it. The liquidity profile for Gokul Agri remains **adequate** with the average utilisation of the Rs. 100-crore fund-based limits remaining at ~36% over the last 15 months that ended in September 2020, whereas the utilisation of non-fund-based limits of Rs. 354 crore remained at ~70% for the last 15 months that ended in September 2020. The access to unutilised working capital facilities lends comfort from the credit perspective. Moreover, Gokul Agri's liquidity profile is supported by no outstanding repayment obligations 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. Further, GRSL has subsidy receivables and advances to suppliers which are expected to be realised in the near term.

Rating sensitivities

Positive triggers – ICRA may upgrade GRSL'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 GRSL's rating could arise if there is deterioration in financial risk profile due to significant increase in debt levels or moderation in profitability.

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 (Gokul Agri), 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 operates its sole unit at Sidhpur (operating under Gokul Agri).

GRSL, Gokul Agri and GO is managed by Mr. Balvantsinh Rajput, while GARL operates under the management of Mr. Kanubhai Thakkar.

Key financial indicators (Audited)-Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	2,205	2,170
PAT (Rs. crore)	12	20
OPBDIT/ OI (%)	1.9%	2.1%
RoCE (%)	9.0%	10.2%
Total Debt/ TNW (times)	0.9	0.8
Total Debt/ OPBDIT (times)	6.4	5.0
Interest Coverage (times)	1.3	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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2020	FY2019	FY2018
					Nov-13-2020	Oct-4-2019	Jul-6-2018	-
1	Long term/Short Term-Fund Based/Non Fund Based (Proposed)	Long Term/Short Term	50.00	-	[ICRA]BBB(Stable) /A3+	[ICRA]BBB(Stable) /A3+	[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

Source: Gokul Refoils & Solvent Limited

ANALYST CONTACTS

K.Ravichandran
+91 44 45964301
ravichandran@icraindia.com

Ravish Mehta
+91 79 4027 1522
ravish.mehta@icraindia.com

Ankit Patel
+91 79 4027 1509
ankit.patel@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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