Rating Rationale

December 01, 2022 | Mumbai

Gokul Refoils and Solvent Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.5 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A2 (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB+/Stable/CRISIL A2' ratings on the bank facilities of Gokul Refoils and Solvent Limited (GRSL; part of the Gokul group).

The ratings continue to reflect the extensive experience of the promoters in the edible oil industry, the healthy position of the Gokul group across refined oil segments (mustard, castor, soyabean and groundnut) and its above-average financial risk profile. These strengths are partially offset by susceptibility of operating margin to volatility in raw material prices and exposure to competition.

The business risk profile of the group is supported by its diverse revenue profile in terms of products, customers and geography. The operating income grew 22% in fiscal 2022, on account of higher realisations, while volumes remained stagnant. In the first half of the current fiscal as well, operating revenue has grown 22% majorly due to high realisations. However, moderation in realisations is expected in the second half of the current fiscal.

The group's operating margin declined marginally to 2.9% in fiscal 2022 from 3.3% in fiscal 2021. Operating margin in the first half of the current fiscal was 3.2%. It is expected to remain stable at around 3% over the medium term. Inventory levels are kept at 40-50 days and 30-40% of the edible oil sales are against advance orders. This reduces the risk of inventory losses during volatility in commodity prices. The company hedges the commodity risk by entering forward contracts and has also put in place proper foreign exchange (forex) risk management policies.

The financial risk profile is supported by low long-term debt. The group does not have any major capital expenditure (capex) planned over the medium term. Debt protection metrics remain comfortable for the rating category. Liquidity remains adequate with cash accrual of Rs 40-45 crore and moderate utilisation of bank limits by the group. The experience of the promoters and management will support the credit risk profile. The promoters are likely to provide support during any exigency.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of GRSL and its subsidiary, Gokul Agri International Ltd (Gokul Agri; rated CRISIL BBB+/Stable/CRISIL A2) and Gokul Overseas. The entities, collectively referred to as the Gokul group, are in the same business and under a common management and have significant operational and financial linkages.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoters and leadership position in the edible oil industry:**
  The Gokul group is one of the top players in the edible oil industry, with presence of over three decades. It is one of the largest players in east and north India and is expanding its reach. It has solvent extraction capacity of 1,000 tonne per day (TPD) and refinery capacity of about 600 TPD. The group has an established presence in west and north-east region and it is improving its brand presence in north and central parts of the country.

  The group sells its products under the Gokul, Vivaan, Tandurast and Rozana brands. In fiscal 2022, branded edible oil accounted for more than 50% of edible oil sales. The Gokul group is among the top three manufacturers and exporters of castor derivatives in India. Revenue is likely to grow at a steady pace, aided by the extensive experience of the promoters and diversified distribution network. Expansion of geographical reach within India remains a key monitorable.

- **Above-average financial risk profile**

The financial risk profile is supported by low long-term debt and no major capex planned over the medium term. The group has healthy interest coverage of around 4.5 times and gearing remained at around 1.5 times in fiscal 2022. With continued dependence on short-term borrowings for funding working capital, debt increased to Rs 485 crore as on March 31, 2022.

The networth increased to Rs 331 crore as on March 31, 2022, from Rs 306 crore a year earlier. With expected stable performance over the medium term, the Gokul group will continue to generate annual cash accrual of Rs 40-45 crore, which will partly fund the incremental working capital requirement.

Weaknesses:

- **Susceptibility of operating margin to volatility in raw material prices:**
  The group faces risks inherent in the agriculture-based commodity business, such as availability of raw material or fluctuations in prices. For instance, the solvent extraction business is susceptible to the availability of oilseeds in the domestic market as well as the international prices of degummed oil and crude oil as these are imported. However, players in branded segment do enjoy some degree of pricing flexibility with edible oil being an essential commodity. Cost of oilseed i.e., input raw material accounts for about 90% of the total cost. Oil prices also depend on global demand-supply and movement in prices of other edible oils. Besides, when the monsoon is erratic, quality seeds are in short supply, which leads to high input costs, thereby adversely affecting operating margins. The company hedges the commodity risk by entering forward contracts. A large part of the procurement is typically from domestic markets and hence exposure to forex risks is limited.

- **Exposure to competition**
  Presence of several small, unorganised players across the value chain (from crushing to solvent extraction) has led to intense competition in the edible oil industry. Shortage of oilseeds and reduced refinery capacity utilisation have led to increased competition among players. Given the price-sensitive nature of demand, players mainly cater to regional demand to avoid high marketing and distribution costs. Furthermore, the industry is vulnerable to government policies in the form of duties imposed on the import of refined and crude edible oil, and volatility in edible oil prices and forex rates. Any large movement in edible oil prices or forex rates could impact profitability.

Liquidity: Adequate

Liquidity is supported by sufficient cash accrual and moderate bank limit utilisation. Cash accrual is expected at Rs 40-50 crore per fiscal against low debt obligation. Fund-based bank limit utilisation averaged 82% for the 12 months ended September 30, 2021, while non-fund-based limit was utilised at 73% on average. No major capex is planned over the medium term.

Outlook: Stable

CRISIL Ratings believes the Gokul group will continue to benefit from its established position and the experience of its promoters in the edible oil business. The prudent risk management policies should support performance and improve the financial risk profile over the medium term

Rating Sensitivity factors

Upward factors

- Better-than-expected operating performance leading to material improvement in cash accrual on sustained basis
- Operating profitability remaining above 4-5% at the group level on sustained basis
- Improvement in debt protection metrics and total outside liabilities to tangible networth (TOLTNW) ratio remaining below 1-1.1 times on sustained basis

Downward factors

- Weaker operating performance, with net cash accrual declining below Rs 20-25 crore
- Large, debt-funded capex exerting pressure on the capital structure
- Stretched working capital cycle, straining the financial risk profile and liquidity
- More-than-expected capital outflow impacting the networth

About the Company

Incorporated in 1992, GRSL was promoted by Mr Balvantsinh Rajput and Mr Kanubhai Thakkar (who have been in the business since 1982 and started with trading sugar and edible oil). The company set up an oil refinery at Sidhpur in Gujarat. Over the years, it has expanded its refining capacity and 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 in the Kandla special economic zone in 1995.

In July 2015, GRSL de-merged its Gandhidham unit into Gokul Agro Resources Ltd (owned by Mr Kanubhai Thakkar) and transferred its Sidhpur unit to Gokul Agri. In fiscal 2018, GRSL sold its Haldia unit in an all-cash deal to Adani Wilmar Ltd. GRSL is listed on the National Stock Exchange and Bombay Stock Exchange.

The operations of the Gokul group are managed by Mr Balvantsinh Rajput. Gokul Agri is mainly involved in crushing and refining of edible oils and non-edible oil, that is castor oil. The company has an extensive marketing and distribution network which reaches customers in 13 states in India through 23 carrying and forwarding agents, 160 distributors, 1 company own depot and around 55,000 retailers.

In the first half of fiscal 2022, the Gokul group had a profit after tax (PAT) of Rs 23 crore and revenue of Rs 1,878 crore.

Key Financial Indicators

As on/for the period ended March 31	2022*	2021*

Revenue	**Rs crore**	**3,218**	**2,632**
Profit after tax (PAT)	**Rs crore**	**49**	**40**
PAT margin	**%**	**1.5**	**1.5**
Adjusted debt/adjusted networth	**Times**	**1.47**	**1.24**
Interest coverage	**Times**	**4.58**	**2.98**

**Consolidated group financials*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2.5	NA	CRISIL BBB+/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	2.5	NA	CRISIL A2

Annexure – List of entities consolidated

Name of entity	Extent of consolidation	Rationale for consolidation
Gokul Agri International Ltd	100%	Business and financial linkages
Gokul Overseas	100%	Business and financial linkages

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	5.0	CRISIL BBB+/Stable / CRISIL A2		--	19-10-21	CRISIL BBB+/Stable / CRISIL A2		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	2.5	Not Applicable	CRISIL BBB+/Stable
Proposed Short Term Bank Loan Facility	2.5	Not Applicable	CRISIL A2

This Annexure has been updated on 01-Dec-22 in line with the lender-wise facility details as on 19-Oct-21 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
CRISILs Criteria for Consolidation

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