Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

May 24, 2022 | Mumbai

Gokul Agro Resources Limited

Ratings upgraded to 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	**Rs.1400 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Positive')**
Short Term Rating	**CRISIL A2 (Upgraded from 'CRISIL A3+')**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Gokul Agro Resources Limited (GARL; part of the Gokul Agro group) to **'CRISIL BBB+/Stable/CRISIL A2'** from 'CRISIL BBB/Positive/CRISIL A3+'.

The upgrade reflects higher-than-expected increase in revenue to Rs 10,407 crore and improved operating margin of 2.3% resulting in healthy cash accrual of Rs 152 crore in fiscal 2022. The company's scale is expected to remain healthy, resulting in comfortable cash accrual over the medium term. Financial risk profile, too, is expected to remain healthy over the medium term despite substantial capital expenditure (capex) undertaken by the Gokul Agro group.

The ratings reflect the group's strong business risk profile, backed by established industry presence, large scale of operations, efficient working capital management, improving operating efficiency, comfortable debt protection metrics and prudent risk management practices. These strengths are partially offset by improving yet leveraged capital structure, exposure to risks related to the ongoing project and susceptibility to regulatory changes and climatic conditions or any sharp unfavourable movement in commodity prices or foreign exchange (forex) rates.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of GARL and its wholly owned subsidiary, Maurigo Pte Ltd, and step-down subsidiary (wholly owned subsidiary of Maurigo Pte Ltd), Riya International Pte Ltd. The entities are collectively referred as the Gokul Agro group, as they are under the same management and have 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:

- **Established presence and large scale of operations:** Mr Kanubhai Thakkar and his family members are the promoters of the group and have industry experience of over three decades. The group generates 15-20% of its revenue through exports of soya meal, mustard deoiled cake, castor oil and its derivatives, while the domestic revenue is spread throughout the country.

  The group has a customer base with over 500 dealers and distributors; the top five clients contribute to 15-20% of the overall revenue. The group is well established and has a reputed clientele, which includes Parle, ITC Ltd, Britannia Industries Ltd, Godrej Industries Ltd among others. It also enjoys wide presence through its brands Vitalife, Zaika, Mahek, Pride, Richfield, Puffpride and Biscopride.

  On the procurement side, the group benefits from the presence of its subsidiaries in Singapore (which is a key oil trading hub) and its longstanding association with the largest of industry players and plantations. Its longstanding presence in its segment of operations has enabled the group to maintain healthy relationships with suppliers and buyers, which is critical for its line of activity.

  The Gokul Agro group has seed processing capacity of 3,200 tonne per day (TPD), DOC capacity of 1,000 TPD, oil refining capacity of 3,400 TPD, vanaspati manufacturing capacity of 200 TPD and castor derivative capacity of 100 TPD at its plant at Gandhidham, Gujarat. The group registered revenue of Rs 10,407 crore in fiscal 2022 at compounded annual growth rate of 16% over the five fiscals through 2022. With majority revenue from the palm products segment, the group has established its place among the top players in the segment. The group will continue to benefit from its established position and the promoters' experience over the medium term.

- **Efficient working capital management:** The group efficiently manages its working capital, with minimal stocking of goods and low receivables, which it further tightened in fiscal 2022. The group's gross current assets (GCAs) are estimated at 40 days as on March 31, 2022, driven by receivables and inventory of 7 and 26 days, respectively. Given the continued price rise in edible oil, the group has marginally brought down its GCAs from previous levels of around 47 days. The working capital will remain well managed, with GCAs expected at 40-50 days over the medium term.

- **Sound operating efficiency:** The healthy operating efficiency is reflected in robust return on capital employed (RoCE) of over 30% in fiscal 2022. RoCE has been healthy at 17.5-23% in earlier fiscals as well. The improvement in RoCE in fiscal 2022 was backed by low yet improving operating margin and faster rotation of capital resulting in scale-up of operations. The average capacity utilisation is 75-80% at the refining unit (through the year) and the seed crushing unit (during the season).

- **Comfortable debt protection metrics:** In fiscal 2022, the group brought down its borrowing cost, supported by lower average interest cost and reduced letter of credit (LC) discounting charges, thereby supporting improvement in debt protection metrics. Interest coverage and net cash accrual to adjusted debt ratios improved to 4.30 times and 0.48 time, respectively, in fiscal 2022, from 2.55 times and 0.40 time, respectively, in the previous fiscal. The metrics are likely to remain healthy over the medium term.

- **Prudent risk management practices:** The group covers itself against inventory price fluctuations through back-to-back purchase arrangements, wherein 70-75% of the stock is pre-sold. Also, the remaining stock is hedged through commodity exchange at CBOT, MCX, NCDEX. Given the large crude oil imports, the group is exposed to high forex risk; however, it covers its forex as soon as it books revenue against the stock. The domestic prices reflect fluctuations in international oil prices and exchange rates. Hence, the group keeps its forex exposure open until sales take place. Also, the group exports around a fifth of its revenue, providing a partial natural hedge. The counterparty risk is mitigated by the large clientele and long-standing customer base, quantitative restrictions and limit on exposure with single customer base.

Weaknesses:

- **Leveraged, though improving, capital structure:** Networth of the Gokul Agro group is estimated at a healthy Rs 470 crore as on March 31, 2022; however, total outside liabilities to tangible networth ratio (TOLTNW) was moderately high at 2.65 times, though it improved from 3.50 times a year earlier. The TOLTNW is high on account of significant funding requirement for the group’s scale of operations. However, adjusted indebtedness (fixed deposit, cash balance, secured receivables netted off from total outside liabilities) was moderate at 1.8 times as on March 31, 2022. The group’s TOLTNW, while continuing to improve, shall remain leveraged on account of significant working capital requirement.

- **Exposure to risk related to the ongoing project:** The group undertook largely debt-funded capex of Rs 230 crore in fiscal 2022 for establishment of the oil refining unit at Krishnapatnam, Andhra Pradesh, which has capacity of 1,400 TPD. The capex is expected to be funded through term debt of around 70-80% and balance through internal accrual. Furthermore, the group is implementing a capex for corporate office, which is majorly funded through term debt and is largely completed. Hence, the company’s capital structure is expected to moderate over the medium term. Timely completion of capex, successful ramp-up of operations with improvement in operating margin and generation of sufficient cash accrual for debt servicing shall remain crucial.

- **Susceptibility to regulatory changes and climatic conditions:** The edible oil industry is closely monitored and regulated by the government because of its direct bearing on the average person’s food plate composition. At various points in time, the government has imposed restrictions through imposition/reduction in duties and exemptions/limitations in imports of certain edible oils or from certain countries. Furthermore, India’s high import dependence makes the industry vulnerable to international demand-supply dynamics and regulations in the origin country. The Gokul Agro group derives around 60-65% of its revenue from the palm products segment, indicating high revenue concentration and import dependence risks. Moreover, edible oil, being an agricultural commodity derivative, is affected by changes in weather, epidemics and monsoon, which may affect the yield, price and availability in a particular year. Thus, the group’s performance is exposed to these factors. The susceptibility is further compounded by the group’s low and volatile operating margin, which is exposed to sudden commodity price and forex fluctuations.

- **Susceptibility to sharp movements in commodity prices or forex rates:** On account of low value-added business activities and high competition, the Gokul Agro group has historically had low and volatile operating margin, ranging between 1.7% and 2.6% over the last five years. While the group hedges against commodity and forex risk, its margin remains susceptible to sharp movements in forex or commodity prices. Though the operating margin will remain volatile, it is expected at around 2% over the medium term on account of cost-saving measures undertaken by the group.

Liquidity: Adequate

The adequate liquidity is backed by optimum management of LC maturity, healthy cash accrual against debt servicing and moderate bank limit utilisation. The company relies on significant LC facilities to support the import of crude oil and domestic purchases. It ensures timely and adequate funds for LC servicing through continued build-up of funds from sale proceeds. The usual bank balance and margin money fixed deposit balance of over Rs 200 crore (Rs 329 crore and Rs 233 crore, respectively, as on March 31, 2022, and March 31, 2021, respectively) will cover the upcoming maturing LC obligation. Bank limit utilisation (export packing credit) averaged 51% over the 12 months through March 2022. Net cash accrual, expected at Rs 110-130 crore per annum, will sufficiently cover yearly debt obligation of Rs 17-40 crore over the medium term. Current ratio was moderate at 1.20 times on March 31, 2022.

Outlook: Stable

The Gokul Agro group will continue to benefit from the promoters' extensive experience and established relationships with clients.

Rating Sensitivity factors

Upward factors

- Sustenance of the interest coverage ratio at over 3 times with steady capital structure (TOLTNW) below 2.5 times
- Improved diversification among oils in terms of revenue concentration coupled with steady rise in cash accrual and stable working capital cycle
- Timely stabilisation of operations at the capex leading to significant increase in revenue and profitability

Downward factors

- Stretch in the TOLTNW ratio to over 3.50 times or weakening of debt protection metrics
- Fall in the operating margin, stretched working capital cycle or large capex weakening liquidity

About the Group

GARL came into existence post the demerger of Gokul Refoils and Solvent Ltd (GRSL). The demerger received approval and sanction from the High Court of Gujarat, with the effective date being July 01, 2015. GRSL had started operations in 1982 as a partnership firm to carry out trading of sugar and edible oil, with Mr Kanubhai Thakkar and Mr Balvantsinh Rajput as its promoters. In 1992, it was incorporated as Gokul Refoils and Solvent Pvt Ltd. Over the years, it has expanded its refining capacity and has set up crushing and extraction facilities at different locations.

Operations of GARL are managed by Mr Kanubhai Thakkar and his family members. The Gokul Agro group has seed processing capacity of 3,200 TPD, DOC capacity of 1,000 TPD, oil refining capacity of 3,400 TPD, vanaspati manufacturing capacity of 200 TPD and castor derivative capacity of 100 TPD at its plant in Gandhidham.

GARL has a subsidiary named Maurigo Pte Ltd and a step-down subsidiary named Riya International Pte Ltd. These entities are based in Singapore and are engaged in procurement and supply for GARL. Their presence in Singapore eases procurement of crude oil by the group and lowers the borrowing cost.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	10,407	8,387
Reported profit after tax (PAT)	Rs crore	123	45
PAT margin	%	1.18	0.53
Adjusted debt/adjusted networth	Times	0.67	0.53
Interest coverage	Times	4.30	2.55

Performance in Q4FY22

As on / for the period ended March 31 2022		Q4 2022
Operating income	Rs crore	2,767
Reported PAT	Rs crore	58
PAT margin	%	2.10
Adjusted debt/adjusted networth	Times	0.67
Interest coverage	Times	7.08

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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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	Long Term Loan	NA	NA	Mar-28	79.40	NA	CRISIL BBB+/Stable
NA	Long Term Loan	NA	NA	Sep-36	29.00	NA	CRISIL BBB+/Stable
NA	Export Packing Credit	NA	NA	NA	200.00	NA	CRISIL A2
NA	Bank Guarantee	NA	NA	NA	20.00	NA	CRISIL A2
NA	Letter of Credit	NA	NA	NA	959.50	NA	CRISIL A2
NA	Foreign Exchange Forward	NA	NA	NA	24.35	NA	CRISIL A2
NA	Proposed Letter of Credit	NA	NA	NA	87.75	NA	CRISIL A2

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Gokul Agro Resources Ltd	Full consolidation	Entities are wholly owned subsidiary and step-down

Maurigo Pte Ltd		subsidiary under a common management and have significant business and financial interlinkages
Riya International Pte Ltd		

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	332.75	CRISIL BBB+/Stable / CRISIL A2		--	27-09-21	CRISIL A3+ / CRISIL BBB/Positive		--		--	--
			--		--	08-09-21	CRISIL A3+ / CRISIL BBB/Positive		--		--	--
Non-Fund Based Facilities	ST	1067.25	CRISIL A2		--	27-09-21	CRISIL A3+		--		--	--
			--		--	08-09-21	CRISIL A3+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	13	Punjab National Bank	CRISIL A2
Bank Guarantee	2	Union Bank of India	CRISIL A2
Bank Guarantee	5	State Bank of India	CRISIL A2
Export Packing Credit	15	Punjab National Bank	CRISIL A2
Export Packing Credit	26	The Jammu and Kashmir Bank Limited	CRISIL A2
Export Packing Credit	3	Bank of India	CRISIL A2
Export Packing Credit	25	Union Bank of India	CRISIL A2
Export Packing Credit	30.75	Central Bank Of India	CRISIL A2
Export Packing Credit	50.25	State Bank of India	CRISIL A2
Export Packing Credit	50	Bank of Baroda	CRISIL A2
Foreign Exchange Forward	10.63	State Bank of India	CRISIL A2
Foreign Exchange Forward	0.7	Bank of India	CRISIL A2
Foreign Exchange Forward	3.02	The Jammu and Kashmir Bank Limited	CRISIL A2
Foreign Exchange Forward	10	Bank of Baroda	CRISIL A2
Letter of Credit	200	Bank of Baroda	CRISIL A2
Letter of Credit	45	Punjab National Bank	CRISIL A2
Letter of Credit	63	The Jammu and Kashmir Bank Limited	CRISIL A2
Letter of Credit	74.75	Bank of India	CRISIL A2
Letter of Credit	97.75	Union Bank of India	CRISIL A2
Letter of Credit	151.5	Central Bank Of India	CRISIL A2
Letter of Credit	277.5	State Bank of India	CRISIL A2
Letter of Credit	50	IDFC FIRST Bank Limited	CRISIL A2
Long Term Loan	10.23	UCO Bank	CRISIL BBB+/Stable
Long Term Loan	28.92	IndusInd Bank Limited	CRISIL BBB+/Stable
Long Term Loan	7.76	Bank of Baroda	CRISIL BBB+/Stable
Long Term Loan	6.16	Union Bank of India	CRISIL BBB+/Stable
Long Term Loan	0.9	Bank of India	CRISIL BBB+/Stable
Long Term Loan	29	ICICI Bank Limited	CRISIL BBB+/Stable
Long Term Loan	25.43	Bandhan Bank Limited	CRISIL BBB+/Stable
Proposed Letter of Credit	87.75	Not Applicable	CRISIL A2

This Annexure has been updated on 24-May-22 in line with the lender-wise facility details as on 27-Sep-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
CRISILs Bank Loan Ratings
The Rating Process
CRISILs Criteria for Consolidation
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Rahul Subrato Kumar Guha Director **CRISIL Ratings Limited** D:+91 22 4097 8320 rahul.guha@crisil.com Nilesh Agarwal Associate Director **CRISIL Ratings Limited** D:+91 79 4024 4536 Nilesh.Agarwal1@crisil.com NIkhil Gupta Senior Rating Analyst **CRISIL Ratings Limited** B:+91 124 672 2000 NIkhil.Gupta@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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