India Ratings & Research
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India Ratings Assigns Gokul Agro 'IND BBB+'/Stable

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India Ratings and Research (Ind-Ra) has assigned Gokul Agro Resources Limited (Gokul) a Long-Term Issuer Rating of 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	October 2036	INR1,091.7	IND BBB+/Stable	Assigned
Fund-based limits	-	-	-	INR2,000	IND BBB+/Stable/IND A2	Assigned
Non-fund-based limits	-	-	-	INR9,538.5	IND A2	Assigned
Proposed non-fund-based limits ^	-	-	-	INR1,619.8	IND A2	Assigned

^ Unallocated

Analytical approach: To arrive at the ratings, Ind-Ra has taken a consolidated view of Gokul and its wholly owned subsidiary Maurigo Pte Ltd. and step-down subsidiaries Riya International Pte Ltd., Maurigo Indo Holdings Pte Limited and PT. Riya Palm Lestari due to strong operational and strategic linkages.

KEY RATING DRIVERS

Robust Market Position and Strong Clientele: Gokul is among the leading edible and non-edible oil manufacturers in the country with a refining capacity of 3,400 tonnes per day (TPD). The company produces soyabean oil, mustard oil, palm oil (palmolein), sunflower oil, vanaspati and industrial oils including castor oil and its derivatives. Gokul expanded its oil refinery capacity to 3,400TPD in FY21 from 1,800TPD in FY16, along with increasing capacities in other divisions.

The ratings also consider the reputed clientele profile of the company, which includes large FMCG companies namely Parle Biscuits Pvt. Ltd., ITC Limited (Foods Division), Britannia Industries, among others. According to the management, the products of the company are marketed under multiple territories across 36 countries and across 17 states in India through over 500 dealers and distributors. The revenue contribution from the top 10 customers is moderate with no customer contributing to more than 10% to the turnover. The company also exports its products to countries such as China, Singapore, the US and Germany.

In the B2C business, the company focusses on selling its products such under the flagship brand names Zaika, Mahek, Vitalife, Richfield and Pride. The management has also informed Ind-Ra that it is focussing on marketing activities to increase its branded retail business.

Experienced Promoters and Locational Advantage: The ratings also consider the over three-decade-long experience of Gokul's promoters in the business of edible oil and the company's relationships with suppliers and customers. Furthermore, the ratings consider the company's location in Gandhidham, only 20km away from the Kandla Port, and its proximity to oilseed growing areas. The company has a 60,000MT liquid cargo terminal storage and an 80,000 square feet storage space in the Kandla port warehouse to facilitate imports and exports, thus resulting in low freight costs.

Robust Risk Management for Commodity and Forex Risk: Since the company's products are agro-commodity-based, its profitability is exposed to volatility in raw material prices, climatic conditions in the major cultivation regions, international trade policies, and so on. In addition, as a majority of raw materials are imported, the company faces foreign exchange risk. However, Ind-Ra takes comfort from the risk management policies followed by the company and expects the margins to remain rangebound over the medium term. The management has informed Ind-Ra that around three-fourths of the sales are made back-to-back to its customers, reducing the risk of price fluctuations of inventory. The outstanding exposure does not exceed 7-10 days of the inventory, which is hedged through commodity exchanges. However, any sharp fluctuation in the commodity prices and forex rates could result in a decline in the EBITDA margins and is thus a key rating monitorable. Furthermore, since domestic prices reflect the fluctuation in the international oil prices and the exchange rates, the company keeps its forex exposure open until actual sales and covers its forex position upon the completion of sales.

Improvement in Revenue and EBITDA: Gokul's revenue grew at a CAGR of 18.15 % over FY17-FY21. The company recorded significant revenue growth of around 50% to INR83,866 million in FY21. The sale volumes grew around 35.5% yoy during FY21 on increased capacity utilisation and the improved price realisations in all the products. The increase in price realisation is mainly attributable to the supply shortages caused by climatic conditions and labour shortages due to the COVID-19-led disruptions in major palm oil exporting nations namely Malaysia and Indonesia during the ramp-up of palm production. Despite various measures taken by the government in connection with the reduction of import duties, relaxation on restricted lists, and others, Ind-Ra believes edible oil inflation will remain in double digits over the near term, which will aid Gokul's topline. During 1HFY22, the company's revenue grew 46% yoy to INR50,155 million.

Gokul's adjusted EBITDA increased to INR1,556 million in FY21 from INR1,313 million in FY20, mainly due to its increased scale of operations. During 1HFY22, the company's EBITDA grew 44% yoy to INR857 million.

Liquidity Indicator - Adequate: Gokul's cash flow from operations remained positive at INR1,471 million in FY21 (FY20: INR1,317 million). The company had cash balances of INR433 million at FYE21 (FYE20: INR431 million). It had sanctioned working capital limits (fund-based and non-fund-based) of INR11,295 million at end-August 2021, with partial one-way interchangeability from fund-based to non-fund based. The combined average working capital utilisation was around 90% during the 12 months ended August 2021, indicating only a modest cushion. The company has scheduled debt repayments of around INR220 million and INR240 million in FY22 and FY23, respectively, likely to be funded through internal accruals. The net working capital cycle remained comfortable and improved to negative 2 days in FY21 (FY20: 1 day), better than the industry peers', owing to a reduction in the inventory days to 19 (32). The loans and advances extended to Gokul's associate Gujarat Gokul Power stood at INR218.4 million at FYE21 (FYE20: INR203.9 million), attributable to the land purchased by the latter but no further advance is likely to be extended.

Moderate Credit Metrics: Gokul's adjusted interest coverage (adjusted EBITDA/gross interest expense) was 2.5x in FY21 (FY20: 1.6x) and adjusted net leverage (adjusted net debt/adjusted EBITDA) was 3.7x (5.6x). Ind-Ra has added the interest income to arrive at the EBITDA since it is an integral part of the core operations. The yoy improvement in the credit metrics in FY21 was on account of a reduction in the gross debt to INR1,846 million (FY20: INR2,601 million) due to a reduction in the working capital utilisation as well as the scheduled repayments of term debt along with an increase in the absolute adjusted EBITDA, owing to the increase in the company's scale. The total outside liabilities/tangible net worth improved to 3.5x in FY21 from 3.9x in FY20 due to debt reduction. The company is incurring capex of INR700 million in FY22, out of which, around INR550 million is being funded through debt and the balance from internal accruals. Despite the debt-funded capex, Ind-Ra expects the adjusted net leverage to remain less than 4x over the near-to-medium term on the back of increasing EBITDA.

Thin EBITDA Margins and Product Concentration: Owing to the lower value of value-added products and intense competition from unorganised players, Gokul's adjusted margins have remained less than 3% over FY17-FY21. The adjusted EBITDA margins decreased to 1.9% in FY21 from 2.3% in FY20, on account of a reduction in gross margins due to the higher cost of raw materials and increased freight costs. During 1HFY22, the EBITDA margins were 1.8%.

Despite Gokul's wide range of product offerings, palm is the dominant product, contributing 55%-65% to the consolidated revenue. However, the company has a diversified product profile with revenues from soya oil, castor oil & its derivatives at 10%-15% each of revenue and balance from other products mitigating the seasonality risk associated with any particular product. The management expects the product concentration to reduce over the medium term with increase in its B2C business, which is primarily non-palm oil products.

Susceptible to Regulatory Changes: The edible oils industry is regulated by the government since it is among the top 10 principal commodities in the country's import basket since FY15. The government had placed the import of refined palm oil under restricted category in January 2020 but subsequently, lifted the restriction till December 2021, to arrest the rise in prices. Also, the refining margins depend on the duty differential between crude and refined, bleached and deodorised (RBD) palm oil. The government also cut import duties on crude palm oil and RBD palm oil in September 2021 and thereafter again in October 2021; as a result, the basic customs duty on crude edible oil has been reduced to zero till March 2022. Despite a reduction in basic customs duty on crude edible oil and RBD, the duty differential remains the same and hence the current rate reduction does not affect the company's margins.

Fragmented and Competitive Industry: The edible oil industry in India is characterised by intense competition and fragmentation, with the presence of a large number of units attributable to low-entry barriers such as low capital and low technical requirements of the business and a liberal policy regime.

RATING SENSITIVITIES

Positive: A sustained improvement in the scale of operations and profitability, leading to the adjusted interest coverage rising above 3x on a sustained basis, will lead to the positive rating action.

Negative: A decline in the profitability and/or an elongation of the working capital cycle and/or significant debt-funded capex, resulting in the adjusted interest coverage falling below 2x on a sustained basis could lead to negative rating action.

COMPANY PROFILE

Gokul is engaged in the business of oil seed crushing, refining oil, solvent extraction, hydrogenation and packing, with refinery capacity of 3,400TPD, seed processing capacity of 3,100TPD, de-oiled cakes capacity of 1,000TPD, vanaspathi manufacturing capacity of 200TPD and castor derivative capacity of 200TPD in its Gandhidham plant, Gujarat.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	83,866	55,873

Adjusted EBITDA (INR million)	1,556	1,313
Adjusted EBITDA margin (%)	1.9	2.3
Adjusted gross interest coverage (x)	2.5	1.6
Adjusted Net leverage (x)	3.7	5.6
Source: Ind-Ra, Gokul		

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instrument, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage
Short-Term Ratings Criteria for Non-Financial Corporates

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