

Press Release

Goel International Private Limited

April 09, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 445.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 445.00 crore bank facilities of Goel International Private Limited (GIPL). The outlook is '**Stable**'.

The downgrade in the rating reflects elongation in working capital cycle, high bank limit utilisation and deterioration in debt coverage indicators. The elongation in working capital cycle is marked by significant increase in inventory holding period to 220 days in FY2018 as compared to 194 days in FY2017. The inventory has further increased to Rs. 526.20 crore as on February 2019 and is expected to remain in 270 to 280 days. The challenges faced by the company in maintaining healthy liquidity profile reflected in persistent high level of bank limit utilisation. The financial risk profile and debt protection metrics are expected to further deteriorate in FY2019 due to higher reliance on working capital borrowings.

GIPL, a Haryana-based company was established in 1998. The company is engaged in the milling and processing of basmati rice. The company was promoted by Mr. Vinod Goel and family. The company mills, processes, and sells basmati rice in international as well as domestic markets.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of GIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and established brand presence**

The promoters of GIPL have more than four decades experience in the rice milling business. The group was promoted by Mr. Sita Ram Goel in 1965, and taken over by Mr. Vinod Goel. The company has a wide distribution network that has helped increase demand for the product. GIPL over the years have established its brand presence in the domestic as well as international markets. The products are sold under the 'GALAXY' brand name. The extensive experience of the promoters has helped the company in establishing longstanding relationships with its customers and suppliers.

- **Proximity to raw material sources**

The manufacturing facility of the group is located at Taraori (Haryana) which offers proximity to raw material source considering that Haryana is among the largest paddy growing states. The same benefits the company in form of easy availability of raw materials at better price and reducing overall logistics cost.

• **Moderate financial risk profile**

GIPL has a moderate financial risk profile marked by healthy net worth, high gearing and moderate debt protection metrics. The net worth of the company stood at Rs.120.64 crore as on March 31, 2018 (includes interest-free unsecured loans from Director, friends and family of Rs.40.18 crore) against Rs.115.64 crore as on March 31, 2017 (includes interest-free unsecured loans from Director, friends and family of Rs.39.98 crore). The total debt of Rs.390.07 crore comprises of short term financing from the bank of Rs.366.67 crore and Rs.23.40 crore unsecured loans from Director, friends and family. The gearing stood high at 3.23 times as on March 31, 2018 against 2.82 times as on March 31, 2017. The debt protection metrics stood moderate with moderate interest coverage ratio of 1.51 times for FY2018 and high total outstanding liabilities to total net worth of 3.40 times as on March 31, 2018.

Weaknesses

• **Working capital intensive nature of operations**

The operations of the company are working capital intensive marked by Gross Current Assets (GCA) of 247 days as on March 31, 2018, which has increased from 225 days as on March 31, 2017. The high GCA is marked by high inventory holding of 220 days as on March 31, 2018 which has increased from 194 days as on March 31, 2017. The raw material paddy is procured seasonally in the months from October to December/February. This results in a higher inventory maintenance period. The credit period to customers is generally 30 days. Whereas the credit period from farmers/ mandi is on an immediate payment basis resulting in higher reliance on external funding from the bank during the season. However, the average utilisation of cash credit for the last six months ended February, 2019 stood at ~ 80-85.00 per cent, thereby indicating higher reliance on working capital limits.

• **Intense market competition and exposure to fluctuations in raw material prices**

The company operates in rice milling business which is marked by presence of large number of players exposing company such as GIPL to high competition. The company is also exposed to the risk related with fluctuation in raw material price i.e. paddy. As paddy price is largely dependent on several external factors such as domestic demand outlook, International trade regulations and domestic productions. Thus, the company is exposed to significant risk related with raw material price fluctuation. Any adverse change in prices of paddy will have direct and significant impact on the margins of the company.

Liquidity Position:

GIPL's liquidity stood moderate marked by moderate net cash accruals in the range of Rs.10.00-11.40 crore for the last three years through 2018. The company operations are working capital intensive marked by high GCA of 247 days as on March 31, 2018, due to high inventory of 220 days as on March 31, 2017. However, the working capital utilisation stood at ~80-85.00 per cent for the last six months ended February, 2019. The company maintains unencumbered cash balances in the range of Rs.0.30-1.00 crore. The current ratio of the company stood low at 1.28 times as on March 31, 2018. Acuite believes that with elongation in working capital cycle and volatile profitability, the liquidity is expected to be at moderate levels over the near to medium term.

Outlook: Stable

Acuite believes that GIPL will maintain 'Stable' business risk profile owing to the extensive promoters experience in the rice milling business and established relationships with customers. The outlook may be revised to 'Positive' in case of sustained increase in revenues and accruals while maintaining the working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and accruals or elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	721.45	758.68	725.95
EBITDA	Rs. Cr.	40.32	31.40	39.25
PAT	Rs. Cr.	4.78	2.47	1.78
EBITDA Margin	(%)	5.59	4.14	5.41
PAT Margin	(%)	0.66	0.33	0.24
ROCE	(%)	7.21	4.89	11.78
Total Debt/Tangible Net Worth	Times	3.23	2.82	3.72
PBDIT/Interest	Times	1.51	1.58	1.44
Total Debt/PBDIT	Times	9.51	10.35	10.37
Gross Current Assets (Days)	Days	247	225	274

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Jan-2018	Cash Credit Pledge (Against warehouse receipt)	Long Term	100.00	ACUITE BBB- / Stable (Upgraded)
	Cash Credit	Long Term	40.00	ACUITE BBB- / Stable (Upgraded)
	Packing Credit	Short Term	300.00	ACUITE A3 (Upgraded)
	Proposed Long Term Loan	Long Term	5.00	ACUITE BBB-/ Stable (Upgraded)
21-Dec-2016	Cash Credit	Long Term	100.00	ACUITE BB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BB+ / Stable (Assigned)
	Packing Credit	Long Term	300.00	ACUITE BB+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	0.89	ACUITE A4+ (Reaffirmed)
	Proposed Long Term Loan	Long Term	4.11	ACUITE BB+ / Stable (Assigned)
14-Dec-2015	Cash Credit	Long Term	50.00	ACUITE BB+ / Stable (Assigned)
	Packing Credit	Long Term	241.00	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	24.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit (Against warehouse receipt)	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BB+ / Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BB+ / Stable (Downgraded)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A4+ (Downgraded)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ / Stable (Downgraded)

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About Acuité Ratings & Research:

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