

Press Release

Goa Carbon Limited (GCL)

29 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 253.00 Cr.
Long Term Rating	SMERA BBB+/ Outlook: Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating to '**SMERA BBB+**' (read as **SMERA triple B plus**) and **short term rating of 'SMERA A2'** (read as **SMERA A two**) on the above mentioned bank facilities of Goa Carbon Limited. The outlook is '**Stable**'.

Goa Carbon Limited (GCL) was incorporated in 1967 with its registered office at Dempo House, Campal, Panaji-Goa. GCL is engaged in manufacturing and marketing Calcined Petroleum Coke (CPC). GCL has manufacturing facilities located Goa, Bilaspur and Paradeep with combined capacity of 225,000 metric tonnes per annum. GCL is a part of Dempo Group which has presence in Iron Ore mining and exports, Calcined Petroleum Coke, Construction, Publishing, Ship Building, Travel and Trade.

Key rating drivers

Strengths

Experienced management and established track record of operations

GCL has more than 5 decades of experience in the production of CPC. The company has an established market position and is one of the leading producers of CPC in India. The promoters of the company is Mr. Shrinivas V. Dempo, Chairman who have extensive experience of over three decades in the industry.

Established relation with reputed customers and suppliers

The company caters to various reputed customers in the Aluminium Industry, Graphite Industry and Steel Industry namely Hindalco Industries Limited, Vedanta Aluminium Limited, The Kerala Minerals and Metals Limited among others. GCL also has healthy relations of over a decade with the various global raw material suppliers such as Kuwait Petroleum Corporation, Oxbow Carbon & Minerals LLC, Mitsubishi Corporation Limited among others.

Healthy revenue growth and order book position with recovery in margins

GCL is expected to record a significant growth in revenues in FY 2018 subsequent to a revenue decline to Rs. 290.0 Cr. in FY2017 as against Rs. 317.7 Cr. in FY2016. During the period April 2017 to November 2017, GCL has already recorded revenues of Rs. 334.6 Cr. The spike in

revenues has been mainly on account of increasing demand for CPC which was driven by increased aluminium production. Also GCL has unexecuted order book of Rs. 158.00 crore as on November 30, 2017 which gives a strong revenue visibility in the near term. Furthermore, the operating margins are improving with higher realisations in CPC.

Improved financial risk profile marked by healthy net worth

GCL has witnessed an improvement in its financial risk profile marked by tangible net worth of Rs. 78.8 Cr. as on 31st March, 2017 as against Rs. 71.0 Cr. as on 31st March, 2016. While the gearing is relatively high at 2.01 times as on 31st March, 2017, it has reduced from 2.89 times as on 31st March, 2016. The aggregate debt of Rs. 158.7 crore mainly consists of working capital borrowings and the company does not have any long term debt as on 31 March 2017. Interest Coverage Ratio (ICR) stood at 3.62 times for FY 2017 as against 0.58 times in FY2016 supported by better operating margins. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at a comfortable 2.33 times as on 31st March, 2017 as against 3.20 times in FY2016. Going forward SMERA expects the financial risk profile to witness a further improvement, albeit moderately in the near to medium term in the absence of major debt funded capexplans.

Weaknesses

Working capital intensive operations

GCL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 150 days in FY2017 compared to 141 days in FY2016. The GCA days are mainly driven by high inventory of 112 days in FY2017 compared to 100 days in FY2016. The high inventory is mainly on account of long lead time of imports and fluctuations in raw material prices. SMERA believes that efficient working capital management will be crucial to the firm's maintaining a stable credit profile.

Exposure to foreign exchange fluctuation risk and cyclicity in Aluminium Industry

GCL imports ~95 percent of the raw material and sells mainly to domestic players which makes it exposed to risks associated to foreign exchange fluctuation. Also the revenues are exposed to cyclicity in Aluminium Industry as almost 85 percent of the production is sold to the Aluminium Industry.

Regulatory risks

The operations of the company are exposed to regulatory risks. The company will have to adhere with the pollution norms in a timely manner to prevent any adverse effects on the operations of its plants.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of GCL to arrive at the rating.

Outlook - Stable

SMERA believes GCL will maintain a stable business risk profile over the medium term. The

company will continue to benefit from its established market position in the CPC business. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while also achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	290.39	317.75	189.01
EBITDA	Rs. Cr.	18.71	(1.78)	(2.77)
PAT	Rs. Cr.	9.42	(3.07)	(10.09)
EBITDA Margin	(%)	6.44	(0.56)	(1.46)
PAT Margin	(%)	3.24	(0.97)	(5.34)
ROCE	(%)	8.58	0.69	(2.36)
Total Debt/Tangible Net Worth	Times	2.01	2.89	2.10
PBDIT/Interest	Times	3.62	0.58	(1.36)
Total Debt/PBDIT	Times	8.48	NA	NA
Gross Current Assets (Days)	Days	150	141	274

NA: Not applicable

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BBB+/ Stable Assigned
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	135.00	SMERA A2/ Assigned
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	SMERA A2/ Assigned
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2/ Assigned
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A2/ Assigned
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	40.00	SMERA A2/ Assigned

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ABOUT SMERA

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