Press Release

Goa Carbon Limited

October 25, 2018

Rating Reaffirmed Outlook Revised

Total Bank Facilities Rated*	Rs.273.00 Cr. (Enhanced from Rs.253.00 crore)
Long Term Rating	ACUITE BBB+/ Outlook: Negative (Revised from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs.213.00 crore bank facilities and assigned the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs.60.00 crore bank facilities of GOA CARBON LIMITED. Further, Acuité has revised the outlook to **'Negative'** from **'Stable'**.

The revision in the outlook is mainly due to significant moderation in the profitability margins and stretched liquidity position of the company which is expected to continue over near term.

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.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established presence in CPC segment**

  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 chairman of the company, Mr. Shrinivas Dempo has an extensive experience of over three decades in the industry. The extensive industry experience of the promoters is also reflected through its healthy revenue growth. The revenues of the company grew at a compounded annual growth rate (CAGR) of 45 per cent over the last four years through 2017-18 to Rs.577.38 crore.

  Acuité believes that GCL will continue to benefit from its established presence in the CPC segment.

GCL caters to various reputed customers in the Aluminium Industry, Graphite Industry and Steel Industry namely Hindalco Industries Limited (HIL), Vedanta Aluminium Limited (VAL), The Kerala Minerals and Metals Limited (KMML), Steel Authority of India Ltd (SAIL) 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. Acuité expects the established position in the industry and healthy relations with both customers as well as suppliers will help the company to maintain stable credit profile in the medium term.

- **Robust operating performance in FY2018 leading to improvement financial risk profile**

GCL has healthy financial risk profile marked by healthy net worth, moderate gearing and healthy debt protection measures.
GCL's net worth stood at around Rs.125.23 crore as on March 31, 2018. The net worth has improved from Rs.72.55 crore as on March 31, 2016 mainly on account of healthy accretion to reserves. Acuité believes that the net worth of the company will increase backed by its healthy revenue growth and stable operating margins leading to healthy accretion to reserves.
The company has followed a moderately aggressive financial policy in the past, with its peak gearing stood at 2.83 times as on March 31, 2016. The gearing of the company, however, has improved to around 1.56 times as on March 31, 2018. The aggregate debt of Rs.194.88 crore mainly consists of working capital borrowings and the company does not have any long term debt as on 31 March 2018.
The coverage indicators stood healthy with Interest Coverage Ratio (ICR) stood at 11.58 times in FY2018 as against 3.06 times for FY2017 supported by better operating margins. The TOL/TNW ratio stood healthy at 1.84 times as on 31 March 2018 as against 2.28 times as on 31 March, 2017.
While FY2018 was exceptional year in terms of profitability and the debt protection indicators, some moderation in margins and coverage indicators is expected in FY2019. Nevertheless, considering the healthy net worth and established position of the company in CPC segment, Acuité believes the financial risk profile to remain healthy in near to medium term.

Weaknesses

- **Significant moderation in profitability margins**

The company faced profitability pressures in Q2 FY2019 (June 2018- September 2018) mainly on account of ban on the import of Pet Coke which is the major raw material for manufacturing CPC and lower price differential between selling price and input cost indicating the challenges faced by the company in passing on the cost increases to its customers. GCL reported net loss of Rs.1.26 crore for Q2 FY2019 as against net profit of Rs.13.76 crore for Q2 FY2018. The manufacturing facilities were shut down during the quarter leading to suboptimal utilization levels.
The operating margins declined to 6.67 percent for H1 FY2019 (April 2018- September 2018) as against 16.25 percent for FY2018. The reduction in the margins is mainly on account of increase in the cost of raw material and decreased realization. The raw material cost to sales for H1 FY2019 stood at 80.04 percent as against 70.98 percent for FY2018.
GCL imports ~95 percent of the raw material and sells mainly in the domestic market thereby rendering it to risks associated with exchange rate fluctuation. Besides forex risk, the revenues are exposed to cyclicality in Aluminium Industry as almost 85 percent of the revenues are derived from the Aluminium Industry.
GCL is in the process of renegotiation of the prices with its customers. Acuité believes the ability of the GCL to pass on the input cost to its customers and achieve optimal utilization levels will be key rating sensitivities.

- **Working capital intensive operations**
GCL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 196 days in FY2018 compared to 257 days in FY2017. The GCA days are mainly driven by high inventory of 71 days in FY2018 compared to 111 days in FY2017. The high inventory is mainly on account of long lead time of imports and fluctuations in raw material prices. The company extends a credit period of ~30 days to its customers, only the other hand all the procurement is facilitated through letter of credit. Acuité believes that efficient working capital management will be crucial to the company for maintaining a stable credit profile.

- **Exposure to customer concentration risk**
GCL faces high customer concentration risk. Its major customers, Hindalco Industries Limited and Bharat Aluminium Company Limited account for around 80 percent of the total revenues.

- **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.

Outlook: Negative
Acuité believes that the GCL's credit profile will be impacted by significant moderation in the profitability margins over the near to medium term. The rating may be downgraded in case of continued moderation in its profitability margins impacting the liquidity and debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the company is able to re-negotiate the contracts with its key customers and achieve optimal utilization levels thereby translating into significant improvement in its profitability margins and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	577.38	292.97	316.22
EBITDA	Rs. Cr.	93.83	20.63	(1.78)
PAT	Rs. Cr.	53.85	9.50	(3.08)
EBITDA Margin	(%)	16.25	7.04	(0.56)
PAT Margin	(%)	9.33	3.24	(0.97)
ROCE	(%)	34.67	9.30	1.26
Total Debt/Tangible Net Worth	Times	1.56	1.98	2.83
PBDIT/Interest	Times	11.58	3.06	0.58
Total Debt/PBDIT	Times	1.95	6.06	56.63
Gross Current Assets (Days)	Days	196	257	279

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.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
29-Dec-17	Cash Credit	Long term	8.00	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Short Term	135.00	ACUITE A2 (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A2 (Assigned)
	Proposed Bank Facility	Short Term	40.00	ACUITE A2 (Assigned)

*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	ACUITE BBB+/Negative (Revised from ACUITE BBB+/Stable)
Cash credit#	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB+/Negative (Assigned)
Letter of credit##	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE A2 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)

#Fully interchangeable with Letter of Credit Facility
Contains sublimit of Cash Credit to the extent of Rs.13.50 crore

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About Acuité Ratings & Research:

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