

Press Release
Goa Carbon Limited

July 15, 2020



Rating Downgraded & Reaffirmed Outlook Revised

Total Bank Facilities Rated*	Rs.273.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Downgraded from ACUITE BBB/Negative)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE**' (read as **ACUITE BBB**) and reaffirmed its short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.273.00 cr. bank facilities of Goa Carbon Limited (GCL). The outlook is revised from '**Negative**' to '**Stable**'.

The rating downgrade is mainly on account of continued moderation in the operating performance as reflected by the financials of FY2020. The revenues deteriorated to Rs.416.82 crore in FY2020 from Rs.461.96 crore in FY2019. GCL made losses on both the operating as well as net levels marked by EBITDA losses of Rs.14.67 crore and PAT losses of Rs.27.75 crore for FY2020. The losses were mainly on account of lower sales realization and demurrage expenses incurred during the year. Acuite believes that the ability of the company to improve its operating performance and to manage its cash flows efficiently will be a key monitorable.

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

Analytical Approach

Acuite 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 is a part of Dempo Group, which was established in 1941. The group one diversified operations having a presence in Iron Ore mining and exports, Calcined Petroleum Coke, Construction, Publishing, Ship Building, Travel and Trade, among others.

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 extensive experience of over three decades in the industry. He is well supported by senior management who are well experienced in the same field. Acuite 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) amongst 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.

Acuite believes that the established position in the industry and healthy relations with both customers as well as suppliers will help the company to a maintain stable business profile in the medium term.

- **Improvement in the working capital cycle**

GCL has demonstrated improvement in its working capital management, which was mainly due to early realization from its customers. Its Gross Current Asset (GCA) days improved to 145 days in FY2020 as against 233 days in FY2019. The receivable cycle improved to 19 days in FY2020 from 49 days in FY2019, while the inventory days also improved to 82 days in FY2020 from 132 days in FY2019. GCL has a lower reliance on working capital borrowings and it mainly uses the Letter of Credit (LC) facility for importing raw material. The LC outstanding as on 10 June 2020 was Rs.88.70 crore.

Acuite believes that the ability of the company to manage its cash flows so as to ensuring timely retirement of LC will remain a key rating sensitivity.

Weaknesses

- **Significant moderation in the operating performance**

GCL has been continuously facing profitability pressures since Q2 FY2019 (June 2018- September 2018) mainly on account of the ban on the import of Pet Coke which is the major raw material for manufacturing CPC and the lower price differential between the selling price and input cost indicating the challenges faced by the company in managing its operating performance.

GCL reported losses at both operating as well as net levels in FY2020. The company reported EBITDA losses of Rs.14.67 crore and PAT losses of Rs.27.75 crore in FY2020. The losses were mainly on account of lower sales realization and demurrage expenses incurred during the year. The continuous losses for the past two years have resulted in a deterioration in the net worth of the company which stood at Rs.79.00 crore as on 31 March 2020 as against Rs.107.48 crore as on 31 March 2019.

GCL imports ~95 percent of the raw material and sell 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 the Aluminium Industry as almost 85 percent of the revenues are derived from the Aluminium Industry.

Acuite believes the ability of the company to improve its sales realization in order to maintain healthy operating margins will be key rating sensitivity.

- **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. Any changes in the regulatory framework such as duties/quotas on the import of raw material, pollution norms will have a significant impact on the operating performance of the company.

Liquidity position: Adequate

GCL has an adequate liquidity position marked by its positive cash flows from operations to take care of its maturing LC obligations. The LC outstanding as on 10 June 2020 was Rs.88.70 crore, out of which Rs.51.7 crore is falling due for retirement in Q2 FY2021; for which GCL has adequate cash flow available.

Rating Sensitivities

- Significant and sustainable improvement in revenues and profitability margins
- Continued moderation in its profitability margins impairing its liquidity and debt protection indicators

Material Covenants

None

Outlook: Stable

Acuite believes that GCL is likely to maintain stable financial risk profile over the medium term on back of its established market presence in the CPC segment and strong promoter group. The outlook may be revised to 'Positive' if the company is able to demonstrate substantial and sustained improvement in its revenues and profitability margins while managing its working capital cycle effectively. Conversely, the outlook may be revised to 'Negative' in case of continued moderation in its profitability margins thereby adversely impacting its liquidity and capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	416.82	461.96
PAT	Rs. Cr.	(27.75)	(7.51)
PAT Margin	(%)	(6.66)	(1.63)
Total Debt/Tangible Net Worth	Times	0.05	0.00
PBDIT/Interest	Times	(0.90)	0.24

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
07-May-19	Cash credit	Long term	8.00	ACUITE BBB/Negative (Downgraded from ACUITE BBB+/Negative)
	Cash credit#	Long term	60.00	ACUITE BBB /Negative (Downgraded from ACUITE BBB+/Negative)
	Letter of credit##	Short Term	135.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Letter of credit	Short Term	50.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Bank guarantee	Short Term	15.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Bank guarantee	Short Term	5.00	ACUITE A3+ (Downgraded from ACUITE A2)
25-Oct-18	Cash credit	Long term	8.00	ACUITE BBB+/Negative (Revised from ACUITE BBB+/Stable)
	Cash credit#	Long term	60.00	ACUITE BBB+/Negative (Assigned)
	Letter of credit##	Short Term	135.00	ACUITE A2 (Reaffirmed)
	Letter of credit	Short Term	50.00	ACUITE A2 (Reaffirmed)
	Bank guarantee	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Bank guarantee	Short Term	5.00	ACUITE A2 (Reaffirmed)
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- (Withdrawn)
Cash credit#	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB /Negative)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB /Negative)
Letter of credit##	Not Applicable	Not Applicable	Not Applicable	135.00	ACUITE A3+ (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Withdrawn)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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