

Press Release

Goa Carbon Limited

October 08, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

Rationale for Rating Reaffirmation

The rating reaffirmation considers the comfort drawn from GCL's established presence in the CPC segment and relations with reputed customers and suppliers, extensive experience of the promoters. Moreover, the rating also factors in the improvement in the operating margins as compared to the losses incurred by the company earlier. The EBITDA margin stood at 1.78 per cent in FY2021 as against (3.52) per cent in FY2020. The rating is, however, constrained by the exposure to customer concentration risk, working capital intensive operations and regulatory risks.

About the company

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 240,000 metric tonnes per annum. Mr. Shrinivas V Dempo is the chairman of the company. 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

For arriving at this rating, Acuite has taken the standalone business and financial risk profile of the company.

Key rating drivers

Strengths

- **Established presence in CPC segment**

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

GCL has more than five decades of track record 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. 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) 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.

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

- **Improvement in operating performance**

Though GCL's operating income declined in FY2021, it was on account of pandemic and economic slowdown. The company's operating revenue in FY2021 stood at Rs.352.84 crore compared to Rs.416.82 crore in FY2020. EBITDA margin, in FY2021 stood at 1.78 per cent compared to operating losses incurred in FY2020. The EBITDA margin further improved to 3.46 per cent in Q1FY2022. The company has been witnessing healthy order flow since past three quarters. The company's current unexecuted order book, as on September 2021, stands at Rs.181.36 crore to be executed by December, 2021.

Acuite believes the ability of the company to achieve optimum capacity utilization while maintaining healthy operating margins will be key rating sensitivities.

Weakness

- **Working capital intensive operations**

GCL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 213 days in FY2021 compared to 145 days in FY2020. The GCA days are mainly driven by high inventory of 111 days in FY2021 compared to 82 days in FY2020. GCL has to import the raw material in advance as per the quota allotted by Director General of Foreign Trade (DGFT) for the quarter which results in higher inventory. The receivables also elongated to 67 days for FY2021 from 19 days for FY2020 mainly on account of delayed realization from its customer. Acuite believes that the ability of the company to manage its liquidity so as to ensuring timely retirement of LC will be critical.

- **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.

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 Covenant

None

Liquidity Position: Adequate

GCL's liquidity position is expected to be adequate over the near term on account of positive cash flows which will take care of the maturing debt obligation. The LC outstanding as on 31 August 2021 was Rs.145.81 crore, out of which Rs.39.23 crore is falling due for retirement in December 2021; for which GCL has adequate cash flow available.

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 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 decline in its profitability margins thereby adversely impacting its liquidity and capital structure.

About the Rated Entity Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	352.84	416.82
PAT	Rs. Cr.	(4.81)	(27.75)
PAT Margin	(%)	(1.36)	(6.66)
Total Debt/Tangible Net Worth	Times	0.41	0.05
PBDIT/Interest	Times	0.71	(0.90)

Status of non-cooperation with previous CRA

Not Applicable

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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
15-July-20	Cash Credit	Long term	8.00	ACUITE BBB- (Withdrawn)
	Cash Credit	Long term	60.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB/Negative)
	Proposed bank facility	Long term	8.00	ACUITE BBB-/Stable (Downgraded from ACUITE BBB/Negative)
	Letter of Credit	Short term	135.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short term	50.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short term	15.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short term	5.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short term	50.00	ACUITE A3+ (Reaffirmed)
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))
	Cash Credit	Long Term	8.00	ACUITE BBB+/Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB+/Negative (Assigned)

25-Oct-18	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)

#Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB-/Stable (Reaffirmed)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB-/Stable (Reaffirmed)
Bank of India	Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	131.50	ACUITE A3+ (Reaffirmed)
Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Withdrawn)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	63.00	ACUITE A3+ (Reaffirmed)

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