

## Press Release

### Goa Carbon Limited

April 14, 2022



### Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	190.50	-	ACUITE A2   Upgraded
Bank Loan Ratings	82.50	ACUITE BBB+   Stable   Upgraded	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	273.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB+**' (read as ACUITE triple B plus) from BBB- (read as ACUITE triple BBB minus) and the short-term rating to '**ACUITE A2**' (read as ACUITE A two) from ACUITE A3+ (read as ACUITE A three plus) on the Rs.273.00 crore bank facilities of Goa Carbon Limited (GCL). The outlook is '**Stable**'.

### Rationale for Rating Upgrade

The rating upgrade factors significant improvement in the business risk profile on the back of structural changes in the end user industry. GCL's revenue improved to Rs. 492 Cr. for 9M FY2022 against Rs.352 Cr. in FY20-21. Acuite expects the company to register revenues in excess of Rs.700 Cr for FY22. There has also been a significant improvement in its operating profitability which stood at Rs.35.Cr for 9M FY2022 against Rs.6.28.Cr for FY20-21. This improvement in scale of operations and profitability is on account of reduction in global supply leading to consequent changes in prices for CPC which is expected to sustain over the medium term due to shift in China's policy towards import, use and export of CPC. China's amended Air Pollution and Control Law includes a restriction on the import, sale or use of higher-sulphur petroleum coke, which is likely to tighten supply of anode-grade petcoke for the aluminium industry. This has lead to improved demand potential for domestic CPC manufacturers. Acuite believes that the current geopolitical issues and consequent sanctions are likely to keep the aluminium prices at elevated levels as Russia contributes approximately 6 per cent of the global aluminium supplies.The rating upgrade is driven by moderate financial risk profile and improvement in its working capital cycle. However, the company's susceptibility to fluctuation in raw material prices and customer concentration risk continue to remain a constraining factors for the rating.

### 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). It has manufacturing facilities located in 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 an established presence in Iron Ore mining and exports, Construction, Publishing, Ship Building, Travel and Trade etc.

## **Analytical Approach**

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

## **Key Rating Drivers**

### **Strengths**

#### **Extensive experience, reputed clientele and established track record of operations in the CPC segment**

GCL is a part of Dempo Group, which was established in 1941. The group has diversified operations with a presence in Iron Ore mining and exports, Construction, Publishing, Ship Building, Travel and Trade, among others. GCL has more than five decades of track record in the production of CPC and hence has an established market position amongst 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. GCL caters to reputed companies among the Aluminium Industry, Graphite Industry and Steel Industry which includes Hindalco Industries Limited (HIL), Vedanta Aluminium Limited (VAL), The Kerala Minerals and Metals Limited (KMML), Steel Authority of India Ltd (SAIL) to name a few. GCL has also healthy relations developed 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 believes that the established position in the industry and healthy relations with both customers as well as suppliers will help the company to maintain a stable business profile in the CPC segment.

#### **Significant Improvement in the operating performance during 9MFY2022**

GCL has reported significant improvement in its revenue and profitability in 9M FY2022 expected to further improve over the medium term. It reported revenue of Rs. 492 Cr. for 9M FY2022 against Rs. 352 Cr. for the entire FY2021. Its revenue has surpassed revenue for FY2020 and FY2019. This growth is primarily driven by increased demand and consequently increased prices for CPC. CPC is a primary raw material used in the manufacturing of aluminium production. There has been a revival in demand for Aluminium globally and domestic sale has also increased on account of shift in Chinese policy towards import, use and export of CPC and other global geopolitical issues. GCL's realisation have gone from Rs. 27000 per MT in April 2021 to around Rs.50,000 per MT in January 2022. This has also led to significant improvement in GCL's operating profitability which has improved to 7 percent for 9M FY2022 against 1.78 percent for FY2021. This growth is expected to sustain over the medium term as China's amended Air Pollution and Control Law includes a restriction on the import, sale or use of higher-sulfur petroleum coke, which is likely to tighten supply of anode-grade petcoke for the aluminium industry. Further, Russia contributes to around 6% of the global supply of aluminum and the current conflict has led to the supply being restricted leading to widening of demand supply gap. GCL is expected to achieve a turnover in the range of Rs.700Cr.-Rs.750 Cr. for FY2022.

#### **Comfortable financial risk profile**

The financial risk profile for 9MFY2022 stood healthy marked by healthy net worth, moderate coverage, and improved debt protection metrics. The net worth of company stood at Rs.99 Cr. ended December 31, 2021 against Rs. 76.17 crores as on March 31, 2021. The Interest coverage ratio during the same period stood at 3.21 times against 0.71 times as on March 31, 2021. Further, gearing ratio stood at 2.05 times as compared to 0.41 times as on March 31, 2021 because of the additions of fund based facilities to the short term debt which earlier included non fund based LC and currently substituted by buyer's credit. This has caused the increase in the gearing and the same is utilised in the purchase of inventory. Further, company reported cash accruals close to Rs.25 Cr. against repayment obligation close to Rs.1 Cr. Cash accruals are expected to remain in the range Rs.43-46 Cr. during FY2022 & FY2023 marking a comfortable and healthy financial risk profile over the medium term.

## **Weaknesses**

### **Profitability susceptible to price volatility and cyclical of the industry**

Calcined Petroleum Coke (CPC) is produced from “green” petroleum coke, which is a byproduct of oil refining. CPC is extensively used to make anodes for the aluminium, steel and titanium smelting industry. The company performance remains vulnerable to cyclical in the aluminium and steel sector as demand for the same depends on the performance of the end user segments such as electronics, aviation, real estate etc. The operating margin of the company is thus exposed to fluctuations in the prices of raw materials as well as realization from finished goods.

### **Exposure to customer concentration risk**

GCL's customer base is heavily dominated by Hindalco Industries Limited (HIL) and Vedanta Aluminium & Power Limited (VAPL) which together account for more than 80 percent of the total revenues. However, HIL and VAPL being leading aluminium producers the risk is mitigated to quite some extent. Acuité believes that the ability of the company to expand its customer base in order to further mitigate the risk will be critical.

## **Rating Sensitivities**

- Sustaining growth in revenue while maintaining stable operating & profitability margins
- Timely collection of receivables used in maintaining margin money required for raising additional debt

## **Material covenants**

None

## **Liquidity Position**

### **Adequate**

GCL has reported net cash accruals close to Rs.25Cr. against obligations close to Rs.0.90Cr. Although cash accruals remained negative for FY2021 the company has been able to service its debt obligations through infusion of funds by promoters. Cash accruals are expected to remain in the range Rs.43-46 Cr. during FY2022 & FY2023 against obligation in the range of Rs.2-3Cr. Although GCL has maintained cash and bank balances close to Rs. 148 Cr. as on December, 31 2021 unencumbered cash balances remain limited to Rs. 14 Cr. GCL has moderately intensive working capital operations with moderate bank limit utilisations of around 63 percent for 6 month period March 2022.

Acuite believes company to maintain adequate liquidity on the back of adequate cushion between net cash accruals vis-à-vis debt repayment obligations and moderate unutilised working capital limits.

## **Outlook: Stable**

Acuité believes that GCL is likely to maintain stable financial risk profile over the medium term on back of increased scale of operations, 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.

## **Other Factors affecting Rating**

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (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 (if applicable)

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2021	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	13.50	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	63.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB-   Stable (Reaffirmed)
	Letter of Credit	Short Term	131.50	ACUITE A3+ (Reaffirmed)
15 Jul 2020	Cash Credit	Long Term	8.00	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	135.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	8.00	ACUITE BBB-   Stable (Downgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short Term	50.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A3+ (Withdrawn)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB-   Stable (Downgraded from ACUITE BBB   Stable)

07 May 2019	Letter of Credit	Short Term	50.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Cash Credit	Long Term	60.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Negative)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Downgraded from ACUITE A2)
	Cash Credit	Long Term	8.00	ACUITE BBB   Stable (Downgraded from ACUITE BBB+   Negative)
	Letter of Credit	Short Term	135.00	ACUITE A3+ (Downgraded from ACUITE A2)
25 Oct 2018	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)
	Cash Credit	Long Term	8.00	ACUITE BBB+   Negative (Reaffirmed)
	Cash Credit	Long Term	60.00	ACUITE BBB+   Negative (Assigned)
	Letter of Credit	Short Term	135.00	ACUITE A2 (Reaffirmed)
		Long Term		
29 Dec 2017	Cash Credit		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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2   Upgraded ( from ACUITE A3+ )
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB- )
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB- )
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	131.50	ACUITE A2   Upgraded ( from ACUITE A3+ )
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	54.00	ACUITE A2   Upgraded ( from ACUITE A3+ )
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	5.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB- )
Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.00	ACUITE BBB+   Stable   Upgraded ( from ACUITE BBB- )



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### About Acuité Ratings & Research

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