

Press Release
Goa Carbon Limited
March 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	69.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	146.00	-	ACUITE A2 Assigned
Bank Loan Ratings	204.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	419.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.273.00 Cr. bank facilities of Goa Carbon Limited (GCL).

Further, Acuite has assigned the short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.146.00 Cr. bank facilities of Goa Carbon Limited (GCL). The outlook is '**Stable**'.

Rationale for reaffirmation

The rating continues to draw comfort from extensive experience of the promoters, long track record of operations and augmentation in business risk profile of the company on the back of structural changes in the end user industry. The revenue from operations witnessed a growth of 85% during 9MFY2023 along with improvement in profitability margin which stood at ~10% against around 7.40% during the earlier year. The significant improvement in scale of operations and profitability is majorly on account of high realisations given the reduction in global supply leading to consequent increase in prices for CPC. However, the production levels of the company remained in the range of 64 percent for FY2021, 59 percent for FY2022 and around 55 percent for 9MFY2023. The rating further takes into account the healthy financial risk profile of the company marked by healthy network, healthy coverage indicators and improvement in scale of operations. 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 308,000 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

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

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.

Improvement in business risk profile

The business risk profile of the company witnessed improvement reflected by growth in revenues during FY22 and 9MFY23. The revenue from operations of GCL improved to Rs. 766.12 Cr. in FY22 against Rs. 352.84 Cr. in FY21. Furthermore, the revenues increased during 9MFY23 and stood at Rs. 1048.33 Cr. The recent surge in the demand of aluminium while tightening of its supply marked by geo-political issues and consequent sanctions on Russia, which contributes almost 6 percent of the global aluminium supply, has resulted in an implicit effect on the pricing of CPC. The average selling price of the CPC during FY20-21 stood at around Rs. 22,000 per metric tonne which grew to Rs. 42,000 per metric tonne in FY21-22, while during current 9MFY23 the average selling price stood as high as Rs.77,000 per metric tonne. Acuité believes that GCL's operating performance is susceptible to the changes in pricing of CPC and the same will remain monitorable for the its future growth.

Comfortable financial risk profile

The financial risk profile stands comfortable marked by healthy net worth, moderate gearing, and adequate debt protection metrics. The net worth of company stood at Rs.114.59 Cr. ended March 31, 2022 against at Rs. 76.17 crores as on March 31, 2021. The ICR during the same period has improved and stood at 3.65 times against 0.71 times as on March 31, 2021. Further, gearing ratio stood at 2.09 times as compared to 0.41 times as on March 31, 2021 owing to additions of fund based facilities to the short term debt which earlier included non-fund based LC and currently substituted by buyer's credit. Going forward, the gearing is expected to improve with increased accretions to the net worth. The tangible net-worth as on December 31, 2022 stood at Rs. 181 Cr. The gearing for FY2023 is expected to remain at 1.22-1.30 times.

Acuité expects that the company will maintain healthy cash accruals on the back of its improved revenues and improved profitability margins which is expected to remain in the range Rs.83 - 95 Cr. during FY23 & FY24.

Weaknesses

Profitability susceptible to price volatility and cyclical nature 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 nature 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. Although the revenues have increased during FY2022 & 9MFY2023, it is not a result of corresponding increased production levels. The actual capacity has remained utilised at around 64 percent in FY2021, 59 percent during FY2022 while 55 percent during 9MFY2023. Further, the operating margins stood at 7.40% in FY2022 against 1.78% in FY2021. The operating performance 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 90 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's liquidity is adequate. The net cash accruals (NCA) stood close to Rs.39.88 Cr. against no major debt obligations within the period as the long term loan of Rs. 9 Cr. carries a moratorium of around 2 years and repayment to start from FY2023. The company majorly works on LCs and Buyer's Credit. Going forward, the cash accruals are expected to remain in the range of Rs.62-80 Cr. owing to increased revenues, against long term obligation of Rs.2-3 Cr, thus marking a comfortable liquidity position. However, GCL keeps major cash balances as margin money with the bank to raise additional LC/BG limits. The fund based working capital limits have remained moderately utilised at around 63 percent showing lesser reliance on the outside debt. Acuité believes that the liquidity of the company will continue to remain adequate on account of adequate net cash accruals against maturing debt obligations over the medium term.

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 marked by increased production levels, 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	766.12	352.84
PAT	Rs. Cr.	37.78	(4.81)
PAT Margin	(%)	4.93	(1.36)
Total Debt/Tangible Net Worth	Times	2.09	0.41
PBDIT/Interest	Times	3.65	0.71

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>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Apr 2022	Cash Credit	Long Term	13.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	131.50	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Bank Facility	Short Term	54.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Working Capital Term Loan	Long Term	5.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Working Capital Term Loan	Long Term	4.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	60.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB- Stable)
08 Oct 2021	Cash Credit	Long Term	60.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	131.50	ACUITE A3+ (Reaffirmed)
	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)
15 Jul	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)

2020	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE BBB+ Stable Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	204.00	ACUITE A2 Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A2 Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	140.00	ACUITE A2 Assigned
Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	4.00	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BBB+ Stable Reaffirmed

* SBI CC of Rs. 60 Cr. includes Sub Limits as Fully Interchangeable with Standby Letter of Credit for Rs 60 crore, fully interchangeable with Letter of Credit for Rs 60 crore. and Forward Contract for upto Rs 16.60 crore

*WCTL to the tune of Rs. 5 cr. from SBI has been availed under GECL Scheme

*LC from BOI to the tune of Rs. 210 Cr. includes Sub Limits as CC Limits of Rs 13.50 crore, EPC/ PCFC Limits of Rs 6 crore, FBD/FBP/FCBD Limits of Rs 6 crore, Bank Guarantee Limits of Rs 10 crore, TCBG/ BC Limits of Rs 210 crore, and CEL Limits of Rs 5 crore

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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