

Press Release

Godavari Commodities Limited

Dec 01, 2020

Rating Reaffirmed, Outlook Revised



Total Bank Facilities Rated*	Rs.240.00 crore
Long Term Rating	ACUITE A-/ Negative (Reaffirmed, outlook revised)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs.240.00 crore bank facilities of Godavari Commodities Limited (GCL). The outlook is revised to '**Negative**' from '**Stable**'.

The revision in outlook is on account of deterioration in the company's business risk profile primarily driven by slowdown in demand in FY20 from some major customers, MSTC Limited and West Bengal Mineral Development & Trading Corporation Limited (WBMDTCL). This has resulted in lower coal offtake, thereby marking a dip of around 36 per cent in revenues in FY20. The revenues are expected to further decrease in FY21 due to the Covid pandemic. However, Acuite draws comfort from the company's strong financial risk profile and sound liquidity position despite the steep decline in revenues in FY20. Moreover, there are no significant debt obligations resulting in lower interest outgo. The rating continues to derive comfort from the extensive experience of the promoters with an operating track record of more than two decades in the coal trading business.

Incorporated in 1992, GCL is a Kolkata based company engaged in trading of non-coking coal. The company also provides coal handling, supervision, and transportation services. GCL has been promoted by the Bhutoria family associated with coal trading since last six decades. Currently, the business is managed by Mr. Padam Chand Bhutoria, Mr. Paras Mal Bhutoria, Mr. Indraj Mal Bhutoria and Mr. Kamal Bhutoria.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The company has a long track record of around six decades in the coal trading industry. The key promoters, Mr. Padam Chand Bhutoria and Mr. Paras Mal Bhutoria have more than two decades of experience in the coal trading business. Currently, Mr. Indraj Mal Bhutoria and Mr. Kamal Bhutoria also look after the day-to-day operations of the company. Acuite believes that the vast experience of the promoter and the long track record has enabled the company to build strong relationships with its customers and ensure continued order flow.

- **Healthy scale, despite decline in revenues**

Though the revenues have declined, the company still operates at a healthy scale with turnover of Rs. 985.42 crore in FY20 (Provisional) from Rs. 1549.67 crore in FY19. The decline in revenues of 36 per cent yoy is on account of lower supply of coal to MSTC Limited and West Bengal Mineral

Development & Trading Corporation Limited (WBMDTCL) in FY20 driven by lower demand from the power generation company, West Bengal Power Development Corporation Limited (WBPDCCL) as it resumed the use of coal from own captive mines to fuel its power generation units. Moreover, due to Covid-19 and subsequent lockdowns, various contracts for sale during the month of March, 20 were cancelled.

Moreover, the company has achieved a turnover of only Rs. 100.33 crore till Sep,20 (provisional) as compared to revenues of Rs. 540.93 crore last year on account of disruption in the company's operations due to Covid lockdown. The company was operating at barely 10-15 percent of its capacity till Sep,20 due to intermittent operations for Covid. However, the company has resumed operations since Oct, 2020. The Covid lockdown has accelerated the slowdown in Q1FY21 and is likely to significantly impact the overall revenues in FY21. Acuite believes that the company's ability to get back to the growth trajectory going forward while maintaining its profitability would be a key rating sensitivity.

• **Comfortable financial risk profile**

The financial risk profile of the company is marked by high net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs. 442.64 Cr. as on 31 March, 2020 (Provisional) as against Rs.401.90 Cr. as on 31st March, 2019. The gearing (debt-equity) stood low at 0.16 times in FY2020 (Provisional) as against 0.23 times in FY2019. The total debt of Rs.70.36 Cr. as on March 31, 2020 (Provisional) consists of short term borrowings of Rs.57.64 Cr, unsecured loan of Rs.12.54 Cr. and long term borrowings of only Rs.0.19 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 8.85 times and 5.53 times in FY2020 (Provisional) as compared to 13.87 times and 9.34 times in FY2019 respectively. The NCA/TD stood at 0.60 times in FY2020. Acuite believes that the financial risk profile of the company will remain comfortable in the medium term.

Weaknesses

• **Working capital intensive operations due to stretched receivables**

The company's operations are highly working capital intensive marked by Gross Current Asset (GCA) of 270 days in FY2020 as against 198 days in FY2019. The rise in GCA days is mainly on account of high debtor days which elongated to 162 days for FY2020 against 118 days in FY19 due to disruption in operations in March end. Due to prolonged lockdown, the company faced delay in receiving payment from its customers.

Debtors stood at Rs. 328.23 crore as on 30th Sep,2020 (Prov) that came down from Rs.436.00 crore as on 31st March, 2020. Out of Rs. 328.00 crore of total debtors, Rs. 271.44 crore are debtors above 120 days and Rs. 56.41 crore below 120 days. Currently, major debtors include government companies such as MSTC Limited and West Bengal Minerals Development & Trading Corporation Limited. Going forward, the ability of the company to reduce its receivable position will remain a key monitorable.

• **Susceptibility to fluctuations in demand and intense competition**

The major users of coal belong to steel, power and cement industry and hence, the demand for coal depends on these industries. Lower demand from these industries will impact the overall performance of the company. The end user industry are further impacted due to Covid-19, Further, it is exposed to intense competition as the coal trading industry is highly fragmented with presence of many organised and unorganised players. Thus, offtake risk remains high in coal trading industry.

Rating Sensitivity

- Ramp up in scale of operations while sustaining operating profitability
- Identifying new customers

- Reduction in debtors realization period

Material Covenants

None

Liquidity Position: Strong

The company's liquidity is strong marked by net cash accruals of Rs.42.00 crore in FY2020 against no significant long term debt obligations. The current ratio stood at 1.85 times as on March 31, 2020. Moreover, the company's utilization stood low ~ 46 per cent of its working capital facilities and ~61 per cent of its non-fund based facilities during the twelve months ended Sep,2020. The company maintained unencumbered cash and bank balances of Rs.3.92 crore and liquid assets in the form of mutual funds of Rs. 20.00 crore and free FD of Rs. 40.00 crore as on March 31, 2020. The company had not availed moratorium during Mar 2020 to Aug 2020. However, the company's operations are highly working capital intensive marked by Gross Current Asset (GCA) of 270 days in FY2020 as against 198 days in FY2019. Going forward, Acuite believes that the company's liquidity to remain adequate owing to sufficient funds maintained in the business.

Outlook: Negative

Acuite believes that the outlook of the company will remain 'Negative' over the medium term on account of weakening of its business risk profile, driven by significant decline in turnover levels of the customer coupled with stretched receivables. The rating may be downgraded in case of further weakening of its business risk profile, lower coal offtake and deterioration in profitability margins thereby impacting the liquidity and debt protection indicators of the company. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant growth in revenues while sustaining its profitability and improving its receivables and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	985.42	1549.67
PAT	Rs. Cr.	40.74	53.82
PAT Margin	(%)	4.13	3.47
Total Debt/Tangible Net Worth	Times	0.16	0.23
PBDIT/Interest	Times	8.85	13.87

Status of non-cooperation with previous CRA (if applicable)

On 28th August'2018, CRISIL has migrated Godavari Commodities Limited's (GCL) rating to the CRISIL BB+ Stable/CRISIL A4+(ISSUER NOT COOPERATING).

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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
08-Aug-2019	Cash Credit	Long Term	70.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	95.00	ACUITE A2+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
26-July-2019	Cash Credit	Long Term	65.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	25.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	30.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Reaffirmed)

	Proposed Bank Guarantee	Short Term	15.00	ACUITE A2+ (Reaffirmed)
17-April-2019	Cash Credit	Long Term	65.00	ACUITE A- (Issuer not cooperating*)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- (Issuer not cooperating*)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Issuer not cooperating*)
	Proposed Letter of Credit	Short Term	30.00	ACUITE A2+ (Issuer not cooperating*)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Issuer not cooperating*)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A2+ (Issuer not cooperating*)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A-/Negative (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A-/ Negative (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2+ (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head-Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Priyanka Rathi Analyst - Rating Operations Tel: 033-66201212 priyanka.rathi@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.