

Press Release

Godavari Commodities Limited

March 14, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	150.00	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	90.00	ACUITE A- Stable Reaffirmed Negative to Stable	-
Total Outstanding Quantum (Rs. Cr)	240.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the 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 '**Stable**' from '**Negative**'.

The revision in outlook factors in the sharp recovery in the turnover levels of the company in the current financial year coupled with significant improvement of their profitability margins. The rating also factors in reputed client profile of the company supported by healthy and sustained volume growth in production coupled with increase in coal prices and increasing demand in the industry providing revenue visibility over the medium term. Further, it is also supported by the management's long track record, healthy financial position characterized by conservative capital structure and strong debt coverage indicators. The rating also draws comfort from the strong liquidity position of the company. These strengths are however, partly offset by the working capital intensity in GCL's operations and susceptibility to changing demand and pricing conditions.

About the Company

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 was promoted by the Bhutoria family associated with coal trading since last six decades. Currently the business is managed by Mr. Padam Chand Bhutoria and his son 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

Experienced management and established relationship with customers

The company has been operational for around two decades. The promoter, Mr. Padam Chand Bhutoria has more than two decades of experience in the coal trading business. Currently the business is managed by Mr. Padam Chand Bhutoria and his son Mr. Kamal Bhutoria. The Bhutoria family has been associated with the coal trading business since the past six decades. The long standing experience of the promoters and long track record of operations has helped them to establish comfortable relationships with key suppliers and reputed customers across the country. The clientele majorly consists of client having high credit worthiness and reputations in the market. Some of the key customers of the company are Anand Carbo Private Limited, Sendoz Commercials Pvt Ltd, West Bengal Minerals Development & Trading Corporation Limited, Lalitpur Power Generation Company to name a few. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

Significant improvement in business risk profile buoyed by healthy scale of operation

GCL achieved revenue of Rs. 505.11 crore in FY21. In FY2021, the revenues were mainly impacted by a decline in volumes owing to the Covid-19 pandemic. During H1FY22, the company has achieved a turnover of Rs.542.42 crore (provisional) as against Rs.100.33 crore in H1FY21. The revenues have further improved in Q3FY22 and the company has reported sales of around Rs. 885.51 crore till December 2021 (provisional).

Despite, decline in revenue, the operating margins improved in FY21. The operating margin of the company increased to 10.23 per cent in FY2021 as compared to 5.24 per cent in the previous year. The PAT margins also improved to 9.48 per cent in FY2021 as against 4.05 per cent as on FY2020. The improvement is driven by cost optimization during the period and increased realizations. The major cost for GCL is the freight cost for transportation of coal, thus exposing the company to volatility in diesel prices. However, such costs are pass-through in nature. This has helped the ROCE levels to be within the comfortable range of 12.82 per cent in FY2021 almost similar levels of 12.53 per cent in FY2020.

Acuité believes that the stable market position and diversified clientele will mitigate the impact of decline, if any, in demand in any one sector. While coal trading volume will be supported by continued demand from the power sector, sustenance of the coal trading volumes will remain key monitorable.

Healthy financial risk profile

The company's financial risk profile is marked by healthy network, comfortable gearing and strong debt protection metrics. The tangible net worth of the company increased to Rs.490.04 Cr as on March 31, 2021 from Rs.442.09 Cr as on March 31, 2020 due to accretion of reserves. Gearing of the company stood below unity at 0.17 times as on March 31, 2021 as against 0.16 times as on March 31, 2020 owing to conservative capital structure due to inherent nature of its business, and its debt levels are not expected to rise significantly, going forward. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.79 times as on March 31, 2021 as against 1.00 times as on March 31, 2020. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 6.82 times as on March 31, 2021 and Debt Service Coverage Ratio at 5.37 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood healthy at 0.64 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the company will remain healthy over the medium term, in absence of any major debt funded capex plans.

Weaknesses

Working capital intensive nature of operation

The working capital management of the company is marked by Gross Current Assets (GCA) of 519 days in 31st March 2021 as compared to 265 days in 31st March 2020. The high level of GCA days is on account of high level of current assets due to advance given to suppliers and transportation companies. Further, the debtor period also stood high at 248 days as on 31st March 2021 as compared to 163 days as on 31st March 2020. The stretched debtors are on account of significant due from prominent debtors like MSTC Limited, West Bengal Minerals Development & Trading Corporation Ltd, to name a few for over a year. However, debtor days have improved to 131 days (Provisional) during 9MFY22 from 248 days as on 31st March 2021. Moreover, the inventory period also stood high at 119 days in 31st March 2021 as compared to 33 days in 31st March 2020. However, the company is going to reap benefits from the higher inventory level as rising international coal prices will keep check on imports and adverse price risks. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from the inherently high debtor period.

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 Sensitivities

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

Material covenants

None

Liquidity Position: Strong

The company's liquidity is strong marked by steady net cash accruals of Rs.49.19 Cr as on March 31, 2021 as against long term debt repayment of only Rs.1.63 Cr over the same period. The current ratio stood comfortable at 2.22 times as on March 31, 2021 as compared to 2.05 times as on March 31, 2020. The fund based limit remained moderately utilized at 76 per cent over the nine months ended December, 2021. The unencumbered cash and bank balances of the group stood at Rs.19.29 Cr as on March 31, 2021 as compared to Rs.9.76 Cr as on March 31, 2020 and also free FD of Rs. 12.66 crore as on March 31, 2021. However, working capital management of the company is high marked by Gross Current Assets (GCA) of 519 days in 31st March 2021 as compared to 265 days in 31st March 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook of the company will remain 'Stable' over the medium term on account of sustainable growth in the financial performance of the company marked by satisfactory scale of operations and improved profitability margins coupled with comfortable capital structure and strong debt coverage indicators on the back of consistent increase in the networth and healthy cash accruals over the years. Conversely, the outlook may be revised in case of 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	505.11	993.76
PAT	Rs. Cr.	47.89	40.22
PAT Margin	(%)	9.48	4.05
Total Debt/Tangible Net Worth	Times	0.17	0.16
PBDIT/Interest	Times	6.82	8.63

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.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
01 Dec 2020	Letter of Credit	Short Term	85.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- Negative (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	65.00	ACUITE A- Negative (Reaffirmed)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
08 Aug 2019	Proposed Bank Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	95.00	ACUITE A2+ (Reaffirmed)
	Proposed Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	70.00	ACUITE A- Stable (Reaffirmed)
26 Jul 2019	Letter of Credit	Short term	50.00	ACUITE A2+ (Reaffirmed)
	Proposed Letter of Credit	Short term	30.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	65.00	ACUITE A- Stable (Reaffirmed)
	Bank Guarantee	Short term	55.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Guarantee	Short term	15.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
17 Apr 2019	Letter of Credit	Short Term	50.00	ACUITE A2+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A2+ (Issuer not co-operating*)
	Proposed Letter of Credit	Short Term	30.00	ACUITE A2+ (Issuer not co-operating*)
	Cash Credit	Long Term	65.00	ACUITE A- (Issuer not co-operating*)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- (Issuer not co-operating*)
02 Feb 2018	Cash Credit	Long Term	65.00	ACUITE A- Stable (Assigned)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A2+ (Assigned)
	Proposed Letter of Credit	Short Term	30.00	ACUITE A2+ (Assigned)
		Short		

	Bank Guarantee	Term	55.00	ACUITE A2+ (Assigned)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Stable Reaffirmed Negative to Stable
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- Stable Reaffirmed Negative to Stable
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- Stable Reaffirmed Negative to Stable
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A- Stable Reaffirmed Negative to Stable
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A- Stable Reaffirmed Negative to Stable
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ Reaffirmed
RBL Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2+ Reaffirmed
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Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A- Stable Reaffirmed Negative to Stable

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About Acuité Ratings & Research

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