

Press Release

Godavari Commodities Limited

March 06, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	77.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	220.00	-	ACUITE A1 Assigned
Bank Loan Ratings	203.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	500.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A**' (read as **ACUITE A**) and also reaffirmed and assigned the short-term rating of **ACUITE A1**' (read as **ACUITE A one**) to the Rs.500.00 crore bank facilities of Godavari Commodities Limited (GCL). The outlook is '**Stable**'.

Rating Rationale

The rating factors in the increased scale of operations and improved financial risk profile of GCL in FY2022 and till date current year performance, supported by the rally in coal prices and expected continuation of healthy performance in the current year as well, on account of high demand and offtake from the power sector. Acuite notes that while the trading volume have moderated in the current year from the all-time highs of FY 2022 following the global coal shortage, the significant surge in price would gradually reflect in GCL's earnings in FY2023 and FY2024 along with diversification of business profile. The financial risk profile have remained comfortable with gearing below unity and strong debt coverage indicators on the back of consistent increase in the networth and higher cash accruals. The rating also derives comfort from the strong liquidity position of the company marked by surplus cash accruals and unutilized lines of fund-based limits. The rating upgrade also factors in reputed client profile of the company supported by increasing demand in the industry providing revenue visibility over the medium term. These strengths are however, partly offset by the working capital intensity in the operations, susceptibility to changing demand and pricing conditions and stressed end user industry. Together with higher accruals and minimal reliance on debt, this is expected to keep the company's financial risk profile healthy, characterised by a conservative capital structure, strong liquidity profile and strong debt coverage metrics.

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 three decades. Currently the business is managed by Mr. Padam Chand Bhutoria and his sons Mr. Indraj Mal Bhutoria and Mr. Kamal Bhutoria. Till fiscal 2012, it was only trading in domestic coal. However, from FY 2013, it also commenced trading in imported coal. Recently, the company has

bagged two contracts from West Bengal Mineral Development and Trading Corporation Ltd for excavation and loading of Sand from the river beds in West Bengal and transporting thereof to customers.

Analytical Approach

Acuité 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

Established in 1992, the company has been operational for around two decades. The promoter, Mr. Padam Chand Bhutoria has more than three decades of experience in the coal trading business. Currently the business is managed by Mr. Padam Chand Bhutoria and his sons Mr. Indraj Mal Bhutoria and Mr. Kamal Singh Bhutoria. The Bhutoria family has been associated with the coal trading business since the past three 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 Saroj Commodities Private Limited, Ankit Metal and Power Ltd, West Bengal Minerals Development & Trading Corporation Limited, Lalitpur Power Generation Company Ltd. 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.

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 improved to Rs. 582.07 Cr as on March 31, 2022 from Rs.490.04 Cr as on March 31, 2021, aided by sizeable accretion to reserves which kept the capital structure conservative, as reflected by a low gearing of 0.11 times as on March 31, 2022 following the repayment of the unsecured loan of Rs 13.61 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.60 times as on March 31, 2022 as against 0.79 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 7.85 times and Debt Service Coverage Ratio at 8.57 times as on March 31, 2022. The surge in earnings in FY2022 supported by minimal debt and high accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood high at 2.44 times as on March 31, 2022. Acuité believes that GCL's financial profile has strengthened further in FY2022 and the same is likely to sustain going forward, supported by healthy internal accrual generation and in absence of any major debt funded capex plans.

Significant improvement in scale of operation

The company has achieved revenues of Rs. 1244.54 Cr in FY2022 as compared to revenues of Rs 505.11 Cr in FY2021. The turnover decline in FY21 was on account of disruption in operation due to pandemic outbreak and also the demand for electricity was low which led to decline in demand for coal. However, the top line improved significantly in FY22, mainly driven by both improvement in volume and realizations. The growth in revenue was driven by high demand from end user industry like iron and steel, power cement etc. Further, the company has already achieved revenues of Rs ~1613.80 Cr till December 2022(Prov). The coal prices have seen significant increase in FY23, largely due to greater fuel and electricity demand as countries slowly exited more stringent coronavirus restrictions as well as fallout from the RussiaUkraine war. As many European countries moved to restricting gas imports from Russia, coal has become the alternative choice to fill the power supply gap, driving up the prices. Acuité believes the scale of operation will improve further in medium term with backed by increasing demand for coal in the domestic market.

However, the EBITDA margin of the company moderated in FY22 to 9.97 per cent in FY2022 as compared to 10.23 per cent in the previous year, due to increasing input prices, high freight cost for transportation of coal, on account of volatility in diesel prices and higher commission expenses. The PAT margins also declined to 7.43 per cent in FY2022 as against 9.48 per cent as on FY2021, due to substantial increase in finance cost. The ROCE levels stood at a comfortable level of about 23.48 per cent in FY2022 as against 12.82 per cent in FY2021, benefitting from the healthy profitability and asset-light nature of the business. 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.

Weaknesses

Working capital intensive nature of operation

The working capital management of the company has improved in FY22, although marked by high Gross Current Assets (GCA) of 217 days in 31st March 2022 as compared to 517 days on 31st March 2021 with increased efficiencies in debtor and inventory management. The high level of GCA days is on account of high level of current assets due to advance given to suppliers and related parties. However, the debtor period significantly improved to 80 days as on 31st March 2022 as compared to 248 days as on 31st March 2021, with implementation of a strict debtor collection policy and capping its exposure to individual customers, thus improving its working capital position. Moreover, the inventory period also stood moderate at 45 days in 31st March 2022 as compared to 119 days in 31st March 2021. In FY21, the company kept the inventory levels high to mitigate the rising international coal prices and adverse price risks. Acuité believes that the working capital operations of the company will remain at same level given the nature of the industry over the medium term.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Strong

GCL's liquidity position is strong with healthy cash accruals and adequate cash and liquid investments. The net cash accruals stood high at Rs. 93.89 Cr as on March 31, 2022 as against debt repayment of only Rs. 1.63 Cr. over the same period. The company maintains healthy cash and bank balances of Rs.61.97 Cr of this Rs.60.72 Cr is retained as current account balance and also maintains unencumbered FD balance of Rs. 20.62 Cr as on March 31, 2022. The current ratio stood strong at 2.29 times as on March 31, 2022 as compared to 2.08 times as on March 31, 2021. Moreover, the fund based limit remained utilized at only ~6.16 per cent over the last eight months ended November, 2022, indicating a considerable buffer from unutilised sanctioned limits. The non-fund based limit remained utilized at ~75.76 per cent over the eight months ended November, 2022. However, working capital management of the company is high marked by Gross Current Assets (GCA) of 217 days in 31st March 2022 as compared to 517 days in 31st March 2021. 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 sustenance of 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

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1244.54	505.11
PAT	Rs. Cr.	92.48	47.89
PAT Margin	(%)	7.43	9.48
Total Debt/Tangible Net Worth	Times	0.11	0.17
PBDIT/Interest	Times	7.85	6.82

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 Entity: <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

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
27 Jan	Proposed Cash Credit	Long Term	15.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	30.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	20.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Bank Guarantee	Short Term	15.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	5.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Proposed Letter of Credit	Short Term	3.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Letter of Credit	Short Term	10.00	ACUITE A1 (Assigned)

2023	Bank Guarantee	Short Term	5.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Proposed Bank Guarantee	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Bank Guarantee	Short Term	20.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	10.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Cash Credit	Long Term	5.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	27.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	5.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	5.00	ACUITE A1 (Upgraded from ACUITE A2+)
	Cash Credit	Long Term	5.00	ACUITE A Stable (Upgraded from ACUITE A- Stable)
14 Mar 2022	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
		Short		
01 Dec 2020	Letter of Credit	Term	5.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Reaffirmed)
	Proposed Cash Credit	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A2+ (Reaffirmed)
	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)

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	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1 Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A1 Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	33.00	ACUITE A1 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A Stable Reaffirmed
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A1 Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A1 Reaffirmed
RBL Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	27.00	ACUITE A1 Reaffirmed
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A1 Reaffirmed
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A1 Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A1 Reaffirmed

Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	220.00	ACUITE A1 Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A1 Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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