No. CARE/HO/RL/2021-22/4437

Shri N. S. Khetan
Chief Financial Officer
Godavari Biorefineries Limited
A/p: Sameerwadi, Tal: Mudhol
Dist-Bagalkot
Bagalkot
Karnataka 587316

April 01, 2022

Confidential

Dear Sir,

Credit rating for Fixed Deposit (FD) programme

On the basis of recent developments including operational and financial performance of your Company for FY21 (Audited) and 11MFY22 (Provisional), our Rating Committee has reviewed the following ratings:

Sr. No.	Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Fixed Deposit	75.00 (Enhanced from 60.00)	CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]	Reaffirmed
	Total Instruments	75.00 (Rs. Seventy-Five Crore Only)		

Note: Out of the above, Rs. 58.75 crore was outstanding as on February 28, 2022

2. The FD Programme is for a tenure of 36 months.

3. Please arrange to get the rating revalidated, in case the entire rated amount is not placed within **six months** from the date of this letter.

4. In case there is any change in the size or terms of the proposed FD programme, please get the rating revalidated.

5. Kindly arrange to submit us a copy of each of the documents pertaining to the FD programme.

6. To enable CARE Ratings Ltd. to monitor the rating with reference to the amount of FD mobilised, you may please inform CARE Ratings Ltd. when the level of deposit reaches the amount specified.

7. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by **April 04, 2022**, we will proceed on the basis that you have no any comments to offer.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

8. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

9. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

10. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

11. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.

12. Our ratings are not recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

PHatode

Vikash Agarwal

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Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure

Press Release

Godavari Biorefineries Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[2]	Rating Action
Fixed Deposit	75.00 (Enhanced from 60.00)	CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]	Reaffirmed
Total Medium Term Instruments	**75.00 (Rs. Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the Long term Fixed Deposit issue of Godavari Biorefineries Limited (GBL) factors in the steady scale of operations owing to robust contribution from the distillery and chemical segment resulting into diversification of revenue stream for the company along with moderate profitability and cash accruals.

The ratings continue to derive strength from experienced promoters with long track record in the sugar industry as well as enjoying continued financial support from promoters (Somaiya Group), being a fully integrated sugar player, locational advantage and broad/reputed customer base.

However, the above strengths continue to be tempered by moderate debt coverage indicators, leveraged capital structure, project execution risk and profit margins susceptible to volatile raw material prices as well as being part of regulated and cyclical sugar industry.

Rating Sensitivities

Positive Sensitivities

- Improvement in the PBILDT and PAT margins exceeding 12% and 5% on a sustained basis
- Improvement in Total Debt to Gross Cash Accruals (TDGCA) below 4.00 times on account of reduction in debt level or improved operational performance on sustained basis
- Improvement in overall gearing to~1.25x led by reduction in debt level and further increase in tangible net worth base on a sustained basis

Negative Sensitivities

- Significant Deterioration in overall gearing to around 3.00x
- Sizeable deterioration in the profitability and cash accruals leading to deterioration in debt coverage indicators
- Significant Deterioration in operating cycle resulting into higher utilization of working capital limits as well as stretch in liquidity position**.**

Key Rating Strengths

Strong promoter group along with long standing track record in sugar industry

GBL belongs to Somaiya group. Promoters have time and again extended financial support to the company in past and are committed to continue the same in future. The company was established by late Mr. K.J. Somaiya in the year 1939 as The Godavari Sugar Mills Limited and is currently managed by his grandson Mr. Samir Somaiya (CMD). The company has more than eight decades of track record in sugar industry. The company is currently managed by a ten member board having extensive experience and is supported by a team of eminent and well qualified professionals from relevant fields.

Fully Integrated sugar producing unit with diversified revenue profile

GBL operates a fully integrated sugar plant with capacity to crush around 15,000 tonne per day (TPD), a CO-Gen plant with capacity of generating 45.56 MWH and a distillery of 400 kilo litre per day (KLPD). The revenue profile is diversified characterized by its presence in production of sugar, ethanol, power and chemicals. During 11MFY22, the company derived around 39.98% of revenue from chemical (35.15% in FY21), followed by sugar contributing 29.58% (32.31% in FY21), ethanol contributing around 28.62% (29.89% in FY21) and remaining from power. The increase in revenue is from the ethanol and chemical division. Going forward, contribution from distillery (ethanol) division is expected to increase as GBL is increasing its focus on ethanol production as the division has higher operating margins backed by fast moving nature of the product.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Locational advantage
The company has facilities located in Maharashtra and Karnataka which are sugarcane growing regions. Sugarcane of Maharashtra and Karnataka has higher recovery than cane in other regions of India which provides companies with manufacturing facilities in this region better operational benefits. The gross recovery rate from sugarcane increased to 11.71% in 11MFY22 vis-a-vis 11.40% in FY21.

Broad and reputed clientele base
The company has a broad customer base with top ten customers contributing 47.94% of total sales in 11MFY22 vis-à-vis 24.39% of the total sales in FY21. GBL also exports its products. However, India is still the highest contributor and contributed 69.33% to the revenue in 9MFY22 (78.18% in FY21). Also, company's customers include wholesale customers as it undertakes institutional sales to beverage players as well as for distillery division, company is selling to OMCs (Oil Marketing Companies).

Steady scale of operation albeit moderate profit margins
During 11MFY22, GBL's total income remained at Rs.1,487.00 crore vis-à-vis Rs.1,529.00 crore in FY21. The quantity of sugarcane crushed was 17,82,500 in 11MFY22 vis-a-vis 20,02,849 MT of sugar crushed in FY21. The company's PBILDT margins deteriorated from 10.30% in FY21 to 8.41% in 11MFY22 with PAT margin at 2.02% in 11MFY22 vis-à-vis 1.61% in FY21. However, despite decline in profit margins, the cash accruals remained robust owing to steady scale of operations. Besides, the company's tangible net worth base improved from Rs. Rs. 220.62 crore as on March 31, 2021 to Rs. 259.84 crore as on February 28, 2022 on the back of accretion of profits to reserves.

Key rating weakness
Leveraged capital structure
The company's capital structure improved to 2.44x as on February 28, 2022 vis-à-vis 2.82x as on March 31, 2021 on account of improvement in the tangible net worth base in 11MFY22 as compared to FY20 owing to accretion of profit to networth. However, despite the improvement, the capital structure stood leveraged. During 11MFY22, the company's working capital intensity has remained more or less similar to FY21 levels. Going forward, any growth plans resulting in a sizeable term debt being availed and resulting into deterioration in the financial risk profile shall will remain a key rating sensitivity factor.

Moderate debt coverage indicators
Debt coverage indicators marked by total debt to gross cash accruals stood at 7.87x in 11MFY22 vis- a-vis 7.07x in FY21 on account of increase in debt levels. Furthermore, the interest coverage ratio has improved marginally from 2.20x in FY21 to 2.45x in 11MFY22 owing to reduction in interest cost. However, the debt coverage indicators stood at moderate levels.

Working capital intensive nature of operations
GBL's business is a working capital-intensive business because of seasonality of agriculture business. The company needs to maintain inventory to offer steady supply of sugar as per the requirements of institutional customers and retail market, and also, the prices of sugar gradually increase over the sugar production cycle, thereby warranting high level of inventory during year end. However, operating cycle improved significantly to 46 days in FY21 as compared to 66 days in FY20 mainly on account of reduction in inventory days as company's sugar stock is less on account of its conscious decision to divert production from sugar to ethanol. Also, the average utilization of its working capital limits stood at 77.60% during past twelve months ending February 2022.

Project Implementation risk
Earlier, the company had planned capex for undertaking ethanol expansion programme the total cost of which will be Rs. 184.16 crore. Out of the same, Rs. 22.39 crore and Rs. 23.50 crore in FY22 and FY23 is towards normal capex.
The actual project cost is Rs. 138.27 crore which will be funded through Rs. 98 crore of term debt (loan of Rs. 75 crore and of Rs. 23.00 crore) and rest through internal accruals. The company has successfully implemented 200 KLPD to 320 KLPD in FY20 and 320 KLPD to 400 KLPD in FY21. The company has initiated the further ethanol expansion from 400 KLPD to 600 KLPD under ethanol blending program. The same is expected to commence from November 2022.
Boiler loan is sanctioned however loan with respect to ethanol expansion is yet to be sanctioned. Thus project risk prevails for GBL in case of delay in tie up of debt and execution and stabilization of capex as envisaged.
The project implementation risk is considered to be moderate on account of the successful track record of the management to implement such large projects in the past and this being an expansion project in a similar line of business.

Cyclical nature of business with raw material price fluctuation risk
The sugar industry is cyclical with dependence of sugar prices on acreage under sugarcane and availability of sugarcane which in turn is dependent on monsoon. Sugar prices are also dependent on demand and supply scenario of sugar in the market, thus impacting sugar prices and in turn margins of the sugar mill owner. The typical length of a cycle is around four to five years. Further, sugarcane prices paid to farmers are regulated with Fair and Remunerative Price (FRP), which is the minimum price

that the company is required to pay the sugarcane growers/farmers, being fixed by the State Government. In downward cycle of sugar industry, payment of FRP to farmers remains a challenge for sugar manufacturers and adversely affects the profitability of the companies.

Regulatory risk as sugar industry is highly regulated
The sugar industry in India is extensively regulated by the government starting from the procurement of sugarcane to the sale of sugar. The industry is subject to the government policies which influence cost. In India, sugar mills are not allowed to own sugarcane fields. They have to mandatorily procure the entire sugarcane production from the specific area assigned to them, known as command area which leads to considerable variability in their inventory-holding patterns and management of working capital for a sugar mill. Further, cane prices are controlled by the Government by FRP (Fair & Remunerative price). Import and export of sugar is also controlled by the Government. Prices of ethanol (by-product of sugar) are also regulated by GOI. Thus, sugar companies do not have much control over all these factors which significantly affect the economics of their operations.

Liquidity: Adequate
Liquidity is marked by steady gross cash accruals being generated as compared to past few years. The company's average fund-based utilization for past twelve months ending February 2022 stood at 77.60% against the sanctioned fund-based limits. Also, cash flow from operating activities remained positive at Rs. 137.33 crore in FY21. The investment in net working capital as a percentage of total capital employed stood at 54.19% as on March 31, 2021 vis-à-vis 54.88% as on March 31, 2020.

Analytical approach: Standalone. Also, support from strong promoter group (Somaiya group) is taken into consideration.

Applicable criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing companies
Financial ratios: Non-financial sector
Liquidity Analysis of Non-Financial Sector Entities
Rating methodology- Sugar Sector

About the Company
Godavari Biorefineries Limited (GBL) is incorporated in 1939 by late Mr. K.J. Somaiya and his son late Dr. Shantilal K Somaiya. As on March 31, 2021, Somaiya group holds 80.17% equity stake in the company through various entities. GBL is an integrated sugar company operating in sugar, power, industrial alcohol and specialty chemicals. The company has an integrated sugar plant in Sameerwadi, Karnataka for cane crushing, cogeneration and an ethanol blending unit. Besides, the company also has a distillery unit and a chemical unit to produce ethyl acetate at Sakarwadi, Maharashtra. The chemical unit was converted into an export-oriented unit (EOU) w.e.f July 01, 2011. The company's chemical division exports ethyl acetate to Middle East, Africa and European countries. The company has an in-house retail brand "Jivana" for sale of sugar, turmeric and salt in the states of Rajasthan Maharashtra, Karnataka and Gujarat.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	11MFY22 (UA)
Total operating income	1,449.48	1,529.09	1,487.00
PBILDT	104.93	157.48	125.00
PAT	2.53	24.56	30.00
Overall gearing (times)	3.23	2.80	2.44
Interest coverage (times)	1.54	2.20	2.45

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fixed Deposit	-	-	-	-	75.00	CARE BBB (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	125.25	CARE A3+	1)CARE A3+ (19-Aug-21) 2)CARE A3 (07-Apr-21)	1)CARE A3 (03-Apr-20)	1)CARE A3 (05-Apr-19)	1)CARE A3 (05-Apr-18)
2	Fund-based - LT-Term Loan	LT	356.08	CARE BBB; Stable	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)
3	Fund-based - LT-Cash Credit	LT	298.00	CARE BBB; Stable	1)CARE BBB; Stable (19-Aug-21) 2)CARE BBB-; Positive (07-Apr-21)	1)CARE BBB-; Stable (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)
4	Fixed Deposit	LT	75.00	CARE BBB (FD); Stable	1)CARE BBB (FD); Stable (19-Aug-21) 2)CARE BBB (FD); Positive (29-Apr-21) 3)CARE BBB (FD); Positive (07-Apr-21)	1)CARE BBB (FD); Stable (03-Apr-20)	1)CARE BBB (FD); Stable (05-Apr-19)	1)CARE BBB (FD); Negative (05-Apr-18)
5	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	1)CARE BBB-; Negative (05-Apr-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. ICR	ICR to be at a minimum of 1.5x
2. Debt to EBITDA	Debt to EBITDA not to exceed 4.75x in FY21
B. Non-financial covenants	
1. Pledging of Shares	The company shall not without prior approval from bank pledge the shares held by the promoters, group beyond 10% of holdings, for raising any loan or for securitizing any loans or advances availed/to be availed by them from any bank/FI/ lender.
2. Amalgamation/reconstitution	The company shall not formulate any scheme of amalgamation/reconstitution without prior approval from the bank.
3. Capex	The company shall not undertake any new project/scheme without obtaining the Bank's prior consent unless the expenditure on such expansion etc. is covered by the borrower's net cash accruals after providing for dividends, investments, etc., or from long term funds received for financing such new projects or expansion.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fixed Deposit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

<u>**Contact Us**</u>

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at** www.careedge.in