

## Rating Advisory

January 17, 2022 | Mumbai

### Gujarat Organics Limited

**Update as on January 17, 2022**

This rating advisory is provided in relation to the rating of Gujarat Organics Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- \* Significant scale up in manufacturing operations with sustained double-digit growth and improvement in operating performance and profitability.
- \* Continuation of dividend income from APL at existing level

#### Downward factors

- \* Pledging of a significant portion of investments in APL to meet own or group companies' requirement
- \* Intake of sizeable debt to fund fresh capex or incremental working capital requirement, leading to increase in gearing to more than 0.5 time on consistent basis
- \* Decline in APL's share price

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Gujarat Organics Limited (GOL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If GOL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the Company

Incorporated in 1978 and promoted by Mr Ashwin Dani, a co-promoter of APL, GOL manufactures para hydroxy benzoic acid and its derivatives (parabens), which are widely used as preservatives in cosmetics, food and pharmaceutical products. The company specialises in synthesis of organic chemicals, intermediates and fine chemicals. It has plants at Ankleshwar and Jhagadia, both in Gujarat. GOL also has an in-house research and development unit recognised by the Department of Scientific and Industrial Research, part of the Ministry of Science and Technology.

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## Rating Rationale

October 14, 2020 | Mumbai

### Gujarat Organics Limited

*Rated amount enhanced*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.85 Crore (Enhanced from Rs.84 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL AA-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A1+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of Gujarat Organics Limited (GOL) at 'CRISIL AA-/Stable/CRISIL A1+'.

The ratings continue to reflect GOL's healthy financial flexibility and financial risk profile. These strengths are partially offset by modest scale of operations and susceptibility to variations in raw material prices.

CRISIL expects GOL's holding in Asian Paints Ltd (APL; rated 'CRISIL AAA/Stable/CRISIL A1+') will be retained over the medium term.

Revenue is estimated to grow 15-20% in fiscal 2021 and operating margin is expected to improve due to better scale of operations. The company has generated revenue of around Rs 43 crore for the five months through August 2020.

The operating income grew to Rs 92 crore in fiscal 2020 from Rs 85 crore in the previous fiscal because of commencement of operations at the new plant. However, operating margin dipped sharply to negative 1% from 8% in the previous fiscal on account of disruptions in March 2020, caused by the Covid-19 pandemic. Shipments of high-margin specialty chemicals could not be dispatched, materially impacting the operating margin for the fiscal.

Stabilising operations from enhanced capacity, leading to steady improvement in revenue and margin will continue to be key rating monitorables.

#### Analytical Approach

CRISIL has followed the holding company approach for analysing the credit risk profile of GOL. CRISIL has also included the company's standalone debt, and that of other companies held by the Dani family in its analysis of GOL's aggregate debt.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### \* High financial flexibility on account of significant shareholding in APL

The market value of GOL's 2.41% stake in APL (valued at around Rs 4,600 crore as on September 16, 2020) provides high financial flexibility. The shares are entirely unencumbered, and as per the management's policy, will not be used for pledge arrangements for share-backed borrowing. GOL's own borrowings are small, relative to the market value of these investments. The holding will likely be retained at current levels over the medium term, as well. The Dani family, along with GOL and other group companies hold a combined 20.07% stake in APL.

##### \* Healthy financial risk profile

Income from operations is supported by relatively steady cash flow from investments in APL. This has resulted in steady accretion to reserves, stable cash accrual and strong debt protection metrics. Net cash accrual to total debt and adjusted interest coverage ratios were 1.35 times and 9.3 times, respectively, in fiscal 2020. Gearing improved to 0.15 time in fiscal 2020, against 0.32 time in fiscal 2019, on account of regular repayment of term debt and healthy accretion to reserves.

##### Weaknesses:

##### \* Modest scale of operations

Despite growth in turnover to Rs 92 crore in fiscal 2020, the scale of operations remains modest in the competitive chemical

industry that has many domestic and foreign players, particularly from China. Scale may continue to be modest, despite commencement of operations at phase II of the new plant in Jhagadia, Gujarat.

#### \* **Susceptibility to variations in raw material prices**

Margin of players in the organic chemicals industry are sensitive to raw material costs, as it constitutes nearly 80-90% of the total production cost. Phenol, methanol and propanol are the main feedstocks, with most of them being derivatives of crude oil. Also, availability of key raw materials such as carbon dioxide (CO<sub>2</sub>), sodium hydroxide and potassium hydroxide are also important concerns for the domestic industry. With volatility in crude oil prices, operating margins of players remain susceptible.

#### **Liquidity Strong**

GOL's liquidity is driven by expected net cash accrual of over Rs 20 crore per year over the medium term, which would be sufficient to meet debt obligation of Rs 17 crore and Rs 3 crore, respectively, over the next two years and also fund incremental working capital requirement. The company has access to bank limits of Rs 25 crore that have been utilised at 70-75% on average during the 12 months ended June 30, 2020. In addition, GOL holds 2.41% stake in APL worth Rs 4,600 crore as on September 16, 2020, which provides ample liquidity and financial flexibility. The company does not have any major capital expenditure (capex) over the medium term.

#### **Outlook: Stable**

CRISIL believes GOL will maintain its healthy financial risk profile over the medium term, backed by strong financial flexibility, comfortable gearing and debt protection metrics.

#### **Rating Sensitivity factors**

##### **Upward factors**

- \* Significant scale up in manufacturing operations with sustained double-digit growth and improvement in operating performance and profitability.
- \* Continuation of dividend income from APL at existing level

##### **Downward factors**

- \* Pledging of a significant portion of investments in APL to meet own or group companies' requirement
- \* Intake of sizeable debt to fund fresh capex or incremental working capital requirement, leading to increase in gearing to more than 0.5 time on consistent basis
- \* Decline in APL's share price

#### **About the Company**

Incorporated in 1978 and promoted by Mr Ashwin Dani, a co-promoter of APL, GOL manufactures para hydroxy benzoic acid and its derivatives (parabens), which are widely used as preservatives in cosmetics, food and pharmaceutical products. The company specialises in synthesis of organic chemicals, intermediates and fine chemicals. It has plants at Ankleshwar and Jhagadia, both in Gujarat. GOL also has an in-house research and development unit recognised by the Department of Scientific and Industrial Research, part of the Ministry of Science and Technology.

#### **Key Financial Indicators**

As on / for the period ended March 31,	Units	2020 (Prov.)	2019
Operating income	Rs crore	92	85
Profit after tax (PAT)	Rs crore	23	22
PAT margin	%	25.2	26.5
Adjusted debt/adjusted networkth	Times	0.15	0.32
Interest coverage	Times	9.32	11.23

**Any other information:** Not applicable

#### **Note on complexity levels of the rated instrument:**

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels).

#### **Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Complexity Level	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Jul-21	20.0	NA	CRISIL AA-/Stable
NA	Cash Credit@@	NA	NA	NA	25.0	NA	CRISIL AA-/Stable
NA	Foreign Exchange Forward	NA	NA	NA	8.5	NA	CRISIL A1+
NA	Letter of Credit Bill Discounting	NA	NA	NA	9.0	NA	CRISIL A1+
NA	Letter of Credit##	NA	NA	NA	7.5	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	15.0	NA	CRISIL AA-/Stable

@@ Fully interchangeable with Pre shipment, Post Shipment Credit and Working Capital Demand Loan

## Fully interchangeable with Bank Guarantee, Buyer's Credit, Stand by Letter of Credit and Invoice Discounting

## Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund-based Bank Facilities</b>	LT/ST	77.50	CRISIL AA-/Stable/ CRISIL A1+	29-09-20	CRISIL AA-/Stable/ CRISIL A1+	10-06-19	CRISIL AA-/Stable/ CRISIL A1+	30-05-18	CRISIL A+/Positive/ CRISIL A1+	10-02-17	CRISIL A+/Positive	CRISIL A/Stable
<b>Non Fund-based Bank Facilities</b>	LT/ST	7.50	CRISIL A1+	29-09-20	CRISIL A1+	10-06-19	CRISIL A1+	30-05-18	CRISIL A1+	10-02-17	CRISIL A1+	CRISIL A1

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit@@	25	CRISIL AA-/Stable	Bill Discounting under Letter of Credit	2	CRISIL A1+
Foreign Exchange Forward	8.5	CRISIL A1+	Cash Credit@	15	CRISIL AA-/Stable
Letter of Credit##	7.5	CRISIL A1+	Foreign Exchange Forward	4.5	CRISIL A1+
Letter of Credit Bill Discounting	9	CRISIL A1+	Letter of Credit#	7.5	CRISIL A1+
Proposed Long Term Bank Loan Facility	15	CRISIL AA-/Stable	Proposed Cash Credit Limit	5	CRISIL AA-/Stable
Term Loan	20	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	5	CRISIL AA-/Stable
--	0	--	Term Loan	45	CRISIL AA-/Stable
<b>Total</b>	<b>85</b>	<b>--</b>	<b>Total</b>	<b>84</b>	<b>--</b>

@@ Fully interchangeable with Pre shipment, Post Shipment Credit and Working Capital Demand Loan

## Fully interchangeable with Bank Guarantee, Buyer's Credit, Stand by Letter of Credit and Invoice Discounting

@ Fully interchangeable with Export Packing Credit/Post Shipment Credit/Working Capital Demand Loan

# Fully interchangeable with Bank Guarantee & Buyer's Credit

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
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