

Date: 20th February, 2023

Ref No: SEC/1009/FY 22-23

To,
BSE Limited
Department of Corporate Services,
25th Floor, Phiroze Jeejeebhoy Tower
Bandra-Kurla Complex
Mumbai - 400 001
Scrip Code:539725

To,
National Stock Exchange of India Limited
Listing Department
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex,
Bandra (E) Mumbai - 400 051
Symbol: GOKULAGRO

Ref : Intimation on revision in Credit Rating from India Ratings and Research Private Limited under Regulations 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/ Madam,

Pursuant to Regulation 30(6) of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, as per intimation received from India Ratings and Research Private Limited ('India Rating and Research'), we wish to inform you that India Rating and Research has upgraded following rating action on the Credit Ratings.

SN	Instrument Type	Previous Rating	Revised Rating	Rating Action
1	Term loans	IND BBB+/Stable	IND A-/Stable	Upgraded
2	Fund-based limits	IND BBB+/Stable	IND A-/Stable/IND A2+	Upgraded
3	Non-fund-based limits	IND A2	IND A2+	Upgraded
4	Proposed fund/non fund-based limits	-	IND A-/Stable/IND A2+	Assigned

The rating letter received from India Rating and Research is attached as Annexure.-I. This information is also being uploaded on the website of the Company at www.gokulagro.com.

You are requested to kindly take the above on record.

Thanking You,

Yours Faithfully,
For Gokul Agro Resources Limited

Viralkumar Thaker
Company Secretary
(Membership No: F8773)

Encl: As Above

Corporate & Registered Office:

Gokul Agro Resources Ltd., Crown 3, Inspire Business Park, Shantigram,
Nr. Vaishnodevi Circle, S.G. Highway, Ahmedabad- 382421, Gujarat-India.
p.: 079 6712 3500 / 6712 3501 | m.: 90999 08537 | fax: 079 67123502

Plant (Gujarat): 76/1p, 80, 89, 91 Meghpar Borichi, Galpadar Road,
Nr. Sharma Resort, Tal.: Anjar Dist. - Kutch- 370110, Gujarat-India. m.: 72269 27175
Plant (Andhra Pradesh): Survey No.929, 929A & 929B, Vill. EPURU BIT-1
Doruvulapalem Panchayat Muthukuru, Sri Potti Sriramulu Nellore Dist.-524323
Andhra Pradesh, India. m: 72279 17006

India Ratings Upgrades Gokul Agro to 'IND A-'/Stable; Rates Additional Proposed Limits

Feb 17, 2023 | Edible Oil

India Ratings and Research (Ind-Ra) has upgraded Gokul Agro Resources Limited (Gokul) Long-Term Issuer Rating to 'IND A-' from 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	FY32	INR4,005.1 (increased from INR1,091.7)	IND A-/Stable	Upgraded
Fund-based limits	-	-	-	INR2,000	IND A-/Stable/IND A2+	Upgraded
Non-fund-based limits	-	-	-	INR11,155 (increased from INR9,538.5)	IND A2+	Upgraded
Proposed fund/non-fund-based limits	-	-	-	INR89.9	IND A-/Stable/IND A2+	Assigned
Proposed non-fund-based limits	-	-	-	INR1,619.8	WD	Withdrawn (the company did not proceed with the instrument as envisaged)

ANALYTICAL APPROACH: To arrive at the ratings, Ind-Ra continues to take a consolidated view of Gokul and its wholly-owned subsidiary Maurigo Pte Ltd. and step-down subsidiaries Riya International Pte Ltd., Maurigo Indo Holdings Pte Limited and PT. Riya Palm Lestari due to strong operational and strategic linkages among them.

The upgrade reflects a sustained improvement in Gokul's profitability in 9MFY23 owing to an increase in its refining capacity and improvement in cost structure, leading to better-than-Ind-Ra-expected credit metrics.

Key Rating Drivers

Increase in Refining and Operational Efficiencies lead to Sustained EBITDA Growth: Gokul's adjusted EBITDA (including interest income) rose sharply to INR2.4 billion in FY22 (FY21: INR1.6 billion, FY19-FY21 average: INR1.4 billion) owing to an increase in the proportion of refined oil, an increase in the sales realisations and an improvement in the

cost structure. The company increased its refining capacity to 2,800 tonnes per day (tpd) in 2HFY21 (FY16: 1,600tpd), which led to an increase in the proportion of its own, high-margin refined oil to over 95% of the product mix in FY22 (from an average of around 80% from FY19-FY21), which generates better margins compared to externally procured refined oil. Value-accretive processes such as fractionation employed during FY22, coupled with yield improvement, power cost savings from the installation of a captive power plant and chartering own vessels for imports which leads sourcing optimisation also improved the cost structure. Besides, the company also benefitted from the sharp increase in the prices of all edible oils in FY22, which led to the blended realisations rising almost 50% yoy during the year, particularly in 2HFY22. Ind-Ra has added the interest income to arrive at the EBITDA since it is an integral part of the core operations.

While edible oil prices witnessed a decline in 2QFY23 and 3QFY23, Gokul was able to achieve an EBITDA of INR0.7 billion-0.8 billion, which is higher than the historical average of INR0.6 billion, although lower than the peak of INR0.9 billion in 4QFY22. Moreover, adding export-oriented products such as castor oil and castor derivatives, imports under tariff rate quota for soybean oil and sunflower oil in FY23, which facilitated imports at competitive rates, supporting profitability margins. Ind-Ra believes given the structural improvements, Gokul's EBITDA is likely to sustain over the medium term at higher-than-the-historical average, despite some of the benefits of the price increases in the past few quarters dissipating.

Ongoing Capex to Increase Diversification: Gokul is increasing its manufacturing presence in West Bengal and Andhra Pradesh through two capex plans. The capex in West Bengal will be by way of inorganic growth. With the two plants operational, the refining capacity will increase in aggregate by 2,600tpd. Both the plants will have direct connectivity with port through underground pipeline. These plants, once operational, will largely cater to Eastern, North Eastern, Bihar, Uttar Pradesh and South India markets. The product mix will largely include sunflower, soy, palm and mustard.

The ongoing capex in Krishnapatinam, Andhra Pradesh is for setting up a new edible oil refinery plant with 1,400tpd capacity with a total capital outlay of INR2,300 million to diversify and strengthen its market presence in the South India. The scheduled commercial operations date is October 2023. Out of the total capacity, 300tpd is earmarked for refined sunflower oil and the balance for refining of other oil.

The new units in Haldi and Krishnapatinam will also benefit from their proximity to the Haldia and Krishnapatinam ports, respectively. While the capex plans will add 2,600tpd, with a potential to lift up the company's EBITDA, the timely commercialisation and successful ramp-up in the new product lines and geographies will remain key monitorable.

Significant Improvement in Credit Metrics in FY22, Credit Metrics to remain Robust Despite Capex: With the rise in the EBITDA, Gokul's adjusted interest coverage (adjusted EBITDA/gross interest expense) improved to 4.3x in FY22 (FY21: 2.5x) and adjusted net leverage (adjusted net debt including letter of credit acceptances/adjusted EBITDA) to 2.3x (FY21: 3.7x), significantly outperforming Ind-Ra's expectations. Notwithstanding a moderation owing to the debt-funded investments, the interest coverage remained robust at 3.2x while the adjusted net leverage stood at 2.9x in 1HFY23.

The company is likely to incur capex of INR3.8 billion over FY23-FY24 (including acquisitions) funded through a debt of INR2.8 billion and internal accruals. While the rise in debt would result in some moderation in the credit metrics in FY24, Ind-Ra believes with a gradual ramp-up in the new plants, the credit metrics will improve in FY25. Ind-Ra also believes despite the debt funding, the net leverage (adjusted net debt (including cash under lien and acceptances)/adjusted EBITDA (including interest income)) will remain below 3.5x over the medium term. Moreover, the company has a planned rights issue of less than INR500 million, which will primarily meet the working capital requirements from the likely increase in scale.

Robust Risk Management for Commodity and Forex Risk to Safeguard Margins: Since the company's products are agro-commodity-based, its profitability is exposed to volatility in raw material prices, climatic conditions in the major cultivation regions, international trade policies, and so on. In addition, as a majority of raw materials are imported, the company faces foreign exchange risk. However, Ind-Ra takes comfort from the risk management policies followed by the company which have resulted in the margins remaining range bound at 2.0%-2.5% over the past five years, despite volatility in oil prices. The agency expects the margins to remain rangebound over the medium term. The management has informed Ind-Ra that 75%-80% of the sales are made back-to-back to its customers, reducing the risk of price

fluctuations of inventory. The outstanding exposure (balance 15%) does not exceed 10 days of the inventory, which is hedged through commodity exchanges. However, any sharp fluctuation in the commodity prices and forex rates could result in a decline in the EBITDA margins and is thus a key rating monitorable. Furthermore, since domestic prices reflect the fluctuation in the international oil prices and the exchange rates, the company keeps its forex exposure open until actual sales and covers its forex position upon the completion of sales. With around 40% institutional sales, Gokul's customer base comprises large fast-moving consumer goods (FMCG) companies, resulting in low counterparty credit risk.

Robust Market Position and Strong Clientele: Gokul is among the leading edible and non-edible oil manufacturers in the country with a refining capacity of 3,400tpd. The company produces soybean oil, mustard oil, palm oil (palmolein), sunflower oil, vanaspati and industrial oils including castor oil and its derivatives. Gokul expanded its oil refinery capacity to current levels from 1,800tpd in FY16, along with increasing capacities in other divisions and incremental capacity (about 76% of existing capacity) is likely to be commercialised over 4QFY23 and FY24.

The ratings also factor in the company's reputed clientele, which includes large FMCG companies namely Parle Biscuits Pvt. Ltd., ITC Limited (Foods Division), Britannia Industries Limited, among others. The company's products are marketed under multiple territories over 35 countries and across 17 states in India through over 500 dealers and distributors as of March 2022. The revenue contribution from the top 10 customers is moderate with no single customer contributing to more than 10% to the turnover in FY22. The company also exports its products to countries such as China, France, the US, the Netherlands and Germany. In the business-to-consumer business, the company focusses on selling its products under the flagship brand names Vitalife, Zaika, Mahek, Richfield and Puff Pride. The management has also informed Ind-Ra that it is focussing on marketing activities to increase its branded retail business.

Experienced Promoters and Locational Advantage: The ratings consider the over four-decade-long experience of Gokul's promoters in the business of edible oil and the company's relationships with suppliers and customers. Furthermore, the ratings consider the company's location in Gandhidham, which is at a distance of 20km from the Kandla Port, and its proximity to oilseed growing areas.

Liquidity Indicator - Adequate: The company had cash balances of INR1,064 million and liquid investments of INR96 million in 1HFYE23 (FYE22: INR1,173 million and liquid investments of INR10 million). The company has scheduled debt repayments of around INR224 million and INR376 million in FY23 and FY24, respectively, which are likely to be funded through internal accruals. Gokul's cash flow from operations declined to INR555 million in FY22 (FY21: INR1,350 million) due to its increased working capital requirements, marked by a higher inventory and reduced creditors funding in business in FY22. However, the net working capital cycle remained comfortable at 1% of the net sales in FY22; Gokul reported negative working capital intensity in 1HFY23, better than the industry peers', owing to a reduction in the debtors' days due to the lower component of sales to government and semi-government entities. The combined average working capital utilisation was around 95% during the 14 months ended December 2022, indicating only a modest liquidity cushion.

Thin EBITDA Margins and Product Concentration: Owing to the lower value of value-added products and intense competition from unorganised players, Gokul's adjusted margins remained less than 3% over FY17-FY22. Despite Gokul's wide range of product offerings, palm is the dominant product, contributing 55%-65% to the consolidated revenue over the last three years. However, revenues from soya oil, castor oil & its derivatives at 10%-15% each of the consolidated revenue and the balance from other products somewhat mitigate the risks associated with any particular product. The management expects the product concentration to reduce over the medium term with an increase in its B2C business, which is primarily non-palm oil products.

Susceptible to Supply condition in the key global markets, Regulatory Changes: India is highly dependent on import of edible oils. In FY22, the global edible oil prices surged due to factors such as a shortfall in its global production, an increase in the export levies by key exporting countries and the trade disruptions arising from the war situation as Russia and Ukraine are the largest exporter of sunflower oil. The headwinds at the global level has put inflationary pressure on domestic prices. Indonesia, the largest global producer and exporter of palm oil, had banned exports from 28 April 2022 to curb the spike in its domestic cooking oil prices which worsened the global shortage. While supply-side pressures and inflationary pressures persisted in 1QFY23, cooking oil prices have gradually moderated from June 2023.

The edible oils industry is regulated by the government. The government has cut import duties on crude palm oil and refined, bleached and deodorised palm oil in September 2021 and the basic customs duty on crude edible oil has been lifted, which has been extended till March 2023. The refining margins also depend on the duty differential between crude and refined varieties.

Fragmented and Competitive Industry: The edible oil industry in India is characterised by intense competition, fragmentation and low entry barriers. As a result, the profitability in the edible oil business tends to be thin. However, a structural improvement in the operating margins will necessitate an increased share of branded sales in the product mix and improved retail presence.

Rating Sensitivities

Positive: A successful ramp up of the new projects, coupled with an improvement in the profitability, leading to the interest coverage rising above 4x and the net adjusted leverage reducing to less than 2.5x on a sustained basis, could lead to the positive rating action.

Negative: A decline in the profitability and/or an elongation of the working capital cycle and/or significant debt-funded capex, resulting in the adjusted interest coverage falling below 3x on a sustained basis could lead to negative rating action.

Company Profile

Incorporated in 2014, Gokul is engaged in the business of oil seed crushing, refining oil, solvent extraction, hydrogenation and packing, with refinery capacity of 3,400tpd, mustard seed crushing capacity of 500 metric tons (mt)/day, Vanaspati capacity of 200mt/day, castor seed crushing capacity of 1,200mt/day, castor cake/ De-Oiled Cake (DOC) capacity of 600mt/day, castor oil derivative capacity of 100mt/day, soya seed crushing capacity of 1,500mt/day and groundnut seed crushing capacity of 250mt/day in its Gandhidham plant, Gujarat.

The company has an ongoing capex for setting up of Refinery at Krishnapatnam, Andhra Pradesh. Gokul has three wind turbine generators with a total power generation capacity of 3.75MW in Gujarat and co-generation captive power plant at Gandhidham factory with a total capacity of 1.085MW for captive use of the company. The company has a silo of 27,000mt (edible) and 10,000mt (non-edible), storage tanks of 37,500mt (edible) and 9,100mt (non-edible), storage godown seed and DOC of 30,500mt (edible) and 10,000mt (non-edible), liquid storage terminal at Kandla for imported oil of 60,000mt (30 tanks) and 80,000sf dry cargo warehouse at Kandla Port warehouse.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR billion)	FY22	FY21
Revenue	103.90	83.87
Adjusted EBITDA	2.39	1.56
Debt	2.89	1.85
Profit after tax	1.23	0.45
Interest	0.56	0.63
Cash	1.18	0.58
Interest coverage (x)	4.3	2.5
Net leverage (adjusted for Letter of Credit acceptances) (x)	2.3	3.7
Source: Gokul, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook	Historical Rating/Outlook
				24 November 2021
Issuer rating	Long-term	-	IND A-/Stable	IND BBB+/Stable
Term loans	Long-term	INR4,005.1	IND A-/Stable	IND BBB+/Stable
Fund-based limits	Long-term/Short-term	INR2,000	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2
Non-fund-based limits	Short-term	INR11,155	IND A2+	IND A2
Proposed fund/non-fund-based limits	Long-term/Short-term	INR89.9	IND A-/Stable/IND A2+	-

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

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APPLICABLE CRITERIA

Corporate Rating Methodology**Short-Term Ratings Criteria for Non-Financial Corporates****DISCLAIMER**

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