GODAVARI BIOREFINERIES LIMITED

October 22, 2024

SMC Ranking

★☆☆☆☆ (1/5)

Issue Highlights

Industry	Ethanol
Offer for sale (Shares)	6,526,983
Fresh Issue (Shares)	9,232,955
Net Offer to the Public	**15,759,938**
Issue Size (Rs. Cr.)	526-555
Price Band (Rs.)	334-352
Offer Date	23-Oct-24
Close Date	25-Oct-24
Face Value	10
Lot Size	42 Shares

Issue Composition

	In shares
Total Issue for Sale	15,759,938
QIB	7,879,969
NIB	2,363,991
Retail	5,515,978

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	81.06%	63.31%
QIB	0.00%	5.77%
NIB	18.94%	20.14%
Retail	0.00%	10.78%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company intends to utilize the Net Proceeds from the Fresh Issue towards funding the following objects (the"Objects"):

Repayment/pre-payment, in full or in part, of certain outstanding borrowings availed by the Company; and

General corporate purposes.

Book Running Lead Manager

- Equirus Capital Private Limited
- SBI Capital Markets Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Established in 1956, Godavari Biorefineries Limited is a leading Indian manufacturer of ethanol-based chemicals. Operating an integrated biorefinery with a capacity of 570 KLPD for ethanol production, the company holds the top position globally in MPO manufacturing based on installed capacity. Renowned for its unique offerings of natural 1,3-butanediol and bio ethyl acetate, the company's product portfolio encompasses bio-based chemicals, sugar, various ethanol grades, and power. These products find applications across diverse industries, including food, beverages, pharmaceuticals, flavors and fragrances, power, fuel, personal care, and cosmetics. The company's commitment to innovation is evident in its three research and development facilities registered with the DSIR. Located in Sakarwadi, Sameerwadi, and Navi Mumbai, these facilities employ a dedicated team of 52 permanent research staff, including eight doctoral-level scientists. As of October 2024, the company has secured 18 patents and 53 registrations for its products and processes worldwide. Godavari Biorefineries boasts a strong customer base, serving marquee players like Hershey India, Hindustan Coca-Cola Beverages, Karnataka Chemical Industries, Techno Waxchem, LANXESS India, IFF Inc., Ankit Raj Organo Chemicals, Escorts Chemical Industries, Khushbu Dye Chem, Privi Speciality Chemicals, Shivam Industries, and major oil marketing companies. The company's global reach extends to over twenty countries, including Australia, China, Germany, France, Italy, Japan, Kenya, the Netherlands, Singapore, the United Kingdom, the United Arab Emirates, Indonesia, and the United States. With two manufacturing facilities in Bagalkot, Karnataka, and Ahmednagar, Maharashtra, the company employs a workforce of 1,583 permanent employees, including 437 semiskilled and unskilled workers.

Strength

A Leading Ethanol Producer and Bio-Refining Company: The company is a prominent player in India's ethanol-based chemicals industry, operating as an integrated bio-refinery with a capacity of 570 KLPD for ethanol production. As of March 31, 2024, it was one of India's largest ethanol producers by volume, a global leader in MPO manufacturing, a pioneer in natural 1,3 butylene glycol, and the sole domestic producer of bio ethyl acetate and bio-based EVE.

Integrated Bio-Refining Operations: Utilizing sugarcane as its primary feedstock, the company produces a diverse range of products, including sugar, ethanol, chemicals, power, and others. Renowned for its extensive bio-based product portfolio, the company's Sameerwadi Manufacturing Facility processes sugarcane to create sugar and ethanol, while also generating power from bagasse and utilizing press mud for compressed biogas production. The company's ability to flexibly produce different ethanol grades enhances its market adaptability.

Diversified Product Portfolio and Customer Base: With a rich history of product diversification and manufacturing expansion, the company offers a comprehensive range of bio-based chemicals, sugar, and ethanol. This diversification has reduced its reliance on any single product or category. Its customer base includes prominent players across various industries and geographies, such as Hershey India, Hindustan Coca-Cola Beverages, Karnataka Chemical Industries, Techno Waxchem, LANXESS India, IFF Inc., Khushbu Dye Chem, Privi Speciality Chemicals, and major oil marketing companies.

Robust Research and Development Capabilities: Recognizing research and development as a key growth driver, the company operates three R&D facilities registered with the DSIR. These facilities, located at Sakarwadi, Sameerwadi, and Navi Mumbai, are equipped with advanced infrastructure for developing new products and optimizing manufacturing processes. The company's consistent investment in R&D has led to

successful process improvements and product developments. In the three months ended June 30, 2024, and fiscal years 2024, 2023, and 2022, the company allocated Rs. 2.50 crore, Rs. 14.35 crore, Rs. 17.01 crore, and Rs. 13.36 crore, respectively, towards R&D, representing 0.44%, 0.85%, 0.85%, and 0.80% of its total expenses.

Strategy

Product Diversification and Operational Efficiency: The company currently manufactures a diverse range of products, including bio-based chemicals like ethyl acetate, bio-ethyl acetate, MPO, 1,3 butylene glycol, crotonaldehyde, acetaldehyde, bio-acetic acid, butanol, EVE, and paraldehyde, which are downstream derivatives of ethanol. To enhance its production capacity, the company plans to expand its distillery capacity from 600 KLPD to 1,000 KLPD, having already secured environmental clearance for this expansion. The company actively seeks opportunities to expand its product portfolio by introducing new products that align with its existing offerings. Leveraging its manufacturing expertise and technological capabilities, the company successfully commenced EVE production in fiscal 2024 and aims to develop additional synergistic products. Additionally, under the "Jivana" brand, the company sells sugar and other food products. By capitalizing on its manufacturing capabilities and the strong reputation of the company and the Somaiya group, the company intends to expand the scale of these product sales and introduce new products that complement its existing portfolio.

Feedstock Security and Value Enhancement: Sugarcane serves as the primary feedstock for the majority of the company's products. The company maintains a vast network of farmers in Karnataka, ensuring a reliable supply of sugarcane. Recognizing the critical role of farmers, the company is implementing various initiatives to enhance feedstock security, including providing technical guidance, agricultural inputs, training programs, and field visits. To further secure feedstock, the company plans to expand its sugarcane crushing capacity at the Sameerwadi Manufacturing Facility beyond 18,000 TCD. Additionally, the company is exploring the production of second-generation ethanol to improve feedstock availability and has entered into agreements with the Centre for High Technology and KIAAR for research activities related to soil testing, tissue culture, bio-fertilizers, technology transfer, organic farming, and energy cane.

Customer Relationship Enhancement and Diversification: The company's product development activities are closely aligned with customer needs and requirements. By leveraging its relationships, manufacturing capabilities, and understanding of customer preferences, the company aims to increase the range of products purchased by existing customers, including more complex and higher-margin offerings. The company has a proven track record of successfully cross-selling products to existing customers, as demonstrated by the expansion of sales from ethanol to ethyl acetate for a major Indian biopharmaceutical company. The company also intends to develop custom-made products for customers, building upon its experience in creating MPO for IFF Inc. This approach enhances its technical capabilities, optimizes manufacturing facility utilization, and ensures greater revenue and cash flow predictability.

Sustainable Practices and Input Control: Recognizing the global pressure to reduce environmental impact, the company is committed to sustainable practices. The company's Sameerwadi Manufacturing Facility houses power plants with an aggregate installed capacity of 45.56 MW, generating electricity for both internal use and export to the grid. To reduce fossil fuel consumption, the company is actively working on using renewable energy sources like biomass briquettes and pellets. The company aims to increase cogeneration capacity, enhance energy efficiency, and scale up the use of alternative fuels and renewable energy in its operations.

Debt Reduction and Leverage: The company intends to reduce its borrowings and debt-to-equity ratio. As of June 30, 2024, the company's consolidated total fund-based borrowings were Rs. 703.75 crore. A portion of the net proceeds from future fundraising will be allocated to repay loans aggregating to Rs. 240 crore. This repayment will help reduce indebtedness, debt servicing costs, maintain a favorable debt-to-equity ratio, and allocate internal accruals for future business growth and expansion. A stronger debt-to-equity ratio will also facilitate future resource raising for potential business development opportunities.

Risk factor

- The company relies on a limited number of suppliers for a substantial portion of its raw materials, excluding sugarcane. This dependence could expose the company to supply chain risks and price fluctuations.
- A significant portion of the company's revenue is generated from a few key customers. The loss of any of these customers, a decline in their financial health, or a reduction in their product demand could have a negative impact on the company's business, financial performance, and cash flow.
- A portion of the company's revenue is derived from a few specific products. A decline in revenue from these products could adversely affect the company's overall financial performance.
- The company outsources the manufacturing and sale of products under its retail brand "Jivana" to third-party manufacturers. This reliance could introduce risks related to quality control, production delays, and supply chain disruptions.
- The company's operations in the sugar, distillery, and cogeneration segments are dependent on the availability of sugarcane, molasses, and other feedstocks. Fluctuations in the supply or price of these materials could impact the company's production and profitability.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Dalmia Bharat	3025.74	265.87	32.84	14.96	1.36	362.22	2	491.40	3977.88
EID Parry	29133.45	882.14	49.68	15.90	1.98	398.29	1	790.15	14030.47
Alkyl Amines	1430.51	147.99	28.94	75.18	8.78	247.80	2	2175.70	11125.67
Balrampur Chini	5625.72	531.12	26.33	24.00	3.75	168.57	1	632.00	12750.55
Dhampur Sugar	1889.87	90.53	13.85	14.59	1.20	168.28	10	202.05	1321.16
Dwarikesh Sugar	1479.60	33.23	1.79	37.81	1.53	44.35	1	67.68	1254.12
Triven.Engg.Ind.	5322.83	358.82	16.39	25.06	3.10	132.52	1	410.75	8991.23
Laxmi Organic	2856.10	116.56	4.21	63.57	4.12	64.98	2	267.65	7405.38
Jubilant Ingrev.	4042.24	174.04	10.93	66.92	4.26	171.87	1	731.40	11649.82
Godavari Biorefineries Limited	1701.06	12.30	4.81	73.23	2.18	161.34	10	352.00	1801.39

***Peer comparisons are based on TTM**
***Godavari Biorefineries financials are based on Fy24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.352, the stock is priced at pre issue P/E of 60.02x on FY24 EPS of Rs.5.86. Post issue, the stock is priced at a P/E of 73.23x on its EPS of Rs. 4.81. Looking at the P/B ratio at Rs.352, pre issue, book value of Rs. 119.37 of P/Bvx 2.95x. Post issue, book value of Rs. 161.34 of P/Bvx 2.18x.

Considering the P/E valuation, on the lower end of the price band of Rs. 334, the stock is priced at pre issue P/E of 56.95x on FY24 EPS of Rs. 5.86. Post issue, the stock is priced at a P/E of 69.49x on its EPS of Rs. 4.81. Looking at the P/B ratio at Rs.334, pre issue, book value of Rs. 119.37 of P/Bvx 2.80x. Post issue, book value of Rs. 161.34 of P/Bvx 2.07x.

Industry Outlook

Ethanol, a renewable and colorless alcohol, is primarily produced through the fermentation of sugar-based materials. It has a wide range of applications, including fuel, beverages, pharmaceuticals, and personal care products. India, a major ethanol producer, has been actively promoting its use to reduce dependence on imported crude oil. The Indian government has implemented various policies to encourage ethanol production. The National Policy on Biofuels (2018) aims to expand ethanol production capacity and blend it with petrol. The BioE3 Policy, approved in 2024, focuses on harnessing advanced biotechnological processes to create high-value bio-based products, including ethanol. Despite challenges like weather-related fluctuations, India has made significant progress in ethanol production and blending. The country has achieved a 15% ethanol blending rate and aims to reach 20% by 2025-26. To meet this target, India requires approximately 10.2 billion liters of ethanol. The shift towards ethanol production has several benefits. It reduces India's reliance on imported crude oil, promotes energy security, and supports the agricultural sector by utilizing surplus sugar

stocks. Additionally, ethanol blending can help reduce greenhouse gas emissions and improve air quality. However, the increased demand for ethanol has also led to concerns about the availability of raw materials, particularly during periods of drought or other adverse weather conditions. To address this, the government has implemented measures to ensure a stable supply of feedstocks for ethanol production. In conclusion, ethanol is a promising renewable fuel source for India. By promoting ethanol production and blending, the country can reduce its dependence on fossil fuels, contribute to a cleaner environment, and support its economy.

Outlook

The company, a leading global manufacturer of MPO, specializes in ethanol-based chemicals. It faced significant challenges in FY23 and FY24 due to government-imposed ethanol production bans and natural calamities. Despite investing in expanded ethanol capacities and innovative production processes, the company was unable to capitalize on these advancements following the sudden ban. However, with the recent lifting of the ban and the relaxed ethanol blending ratio, the company is well-positioned to reap the benefits of its increased capacity. While the financial impact of the past challenges is evident, the company's strong market position and the favorable regulatory environment suggest a promising long-term outlook. Investors with a high-risk tolerance may consider investing in the company, given its potential for substantial growth.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	23-October-24
BID/ISSUE CLOSES ON	25-October-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	28-October-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	29-October-24
Credit of Equity Shares to Demat Accounts of Allottees	29-October-24
Commencement of trading of the Equity Shares on the Stock Exchanges	30-October-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-24 (3 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	522.53	1686.67	2014.69
Total expenditure	534.76	1553.13	1868.46
Operating Profit	**-12.24**	**133.54**	**146.23**
OPM%	-2.34	7.92	7.26
Other Income	2.75	14.40	8.39
PBDIT	**-9.49**	**147.93**	**154.62**
Depreciation	12.57	59.93	50.08
PBIT	**-22.06**	**88.01**	**104.54**
Interest	19.57	75.56	72.79
Profit Before Tax	**-41.64**	**12.45**	**31.75**
Tax	-15.53	0.15	12.11
PAT	**-26.11**	**12.30**	**19.64**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-24	As on 31-Mar-24	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	842.31	848.61	864.98
Capital Work-in-Progress	16.49	16.36	8.36
Right-of-use	0.38	0.45	0.48
Intangible Assets	0.65	0.70	0.94
Intangible Assets under Development	12.86	12.42	8.68
Investments accounted for using the equity method			
Financial Assets			
Investments	0.00	0.00	0.00
Trade Receivables	0.10	0.78	6.72
Other Financial Assets	18.36	18.18	13.68
Other Non-Current Assets 9 1	19.07	17.68	15.39
Total non-current assets	**910.21**	**915.18**	**919.24**
Current assets			
Inventories	435.37	805.21	519.33
Financial Assets			
Trade Receivables	122.86	189.80	202.04
Cash and Cash Equivalents	11.21	11.11	21.27
Bank Balances Other than (ii) above	19.26	21.46	23.51
Other Financial Assets	12.09	12.32	2.80
Other Current Assets	43.63	36.58	55.33
Total current assets	**644.41**	**1076.48**	**824.29**
Total Assets	**1554.62**	**1991.66**	**1743.52**
Non-current liabilities			
Borrowings	330.23	355.48	460.19
Lease Liabilities	0.22	0.25	0.50
Other Financial Liabilities	0.89	1.08	0.18
Provisions	2.30	2.30	2.07
Deferred Tax liabilities (Net)	6.07	21.65	22.06
Other Non-Current Liabilities	0.50	0.53	0.70
Total non-current liabilities	**340.21**	**381.29**	**485.70**
Current liabilities			
Financial Liabilities			
Borrowings	363.48	298.58	275.15
Lease Liabilities	0.22	0.28	0.06
Trades Payable - MSME	10.40	12.13	14.81
Trade Payables - other than MSME	222.49	618.08	385.06
Other Financial Liabilities	43.00	38.88	42.34
Other Current Liabilities	95.79	137.56	45.53
Provision	4.75	4.10	4.88
Current Tax Liabilities (Net)	0.00	0.08	0.56
Total current liabilities	**740.13**	**1109.69**	**768.38**
Total	**1080.34**	**1490.98**	**1254.07**
Net worth represented by:			
Equity Share Capital	41.94	41.94	41.94
Other equity	432.34	458.74	447.51
Net Worth	**474.28**	**500.68**	**489.45**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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