

24th October 2024

Godavari Biorefineries – SUBSCRIBE

Investment Thesis

Godavari Biorefineries Ltd. IPO is a book built issue of 15759937 equity shares of Rs. 10 each worth Rs. 554.75 cr. The issue constitutes 9232954 fresh equity shares (worth Rs. 325 cr.), and an offer for sale (OFS) of 6526983 shares (worth Rs. 229.75 cr.). From the net proceeds of the fresh equity issue, the company will utilize Rs. 240 cr. for repayment/prepayment of certain borrowings, and the rest for general corporate purposes.

GBL is a leading manufacturer of sugar with a crushing capacity of 18,000 TCD, strategically located in Karnataka's sugarcane-rich belt, ensuring a steady supply of raw materials through strong farmer relationships.

The company has significantly increased its ethanol production capacity from 200 KLPD in FY19 to 600 KLPD in FY24, with plans to further enhance it to 1,000 KLPD. This positions GBL to meet the growing demand for ethanol driven by government blending targets and rising biofuel awareness.

GBL is diversifying its feedstock for ethanol production to include grains, mitigating risks associated with reliance on molasses and cane juice. This strategic move aligns with government initiatives to boost ethanol production and reduce dependency on traditional feedstocks.

The company is a pioneer in bio-based chemicals, producing a wide range of specialty chemicals from ethanol. This positions GBL favorably as industries increasingly seek safer alternatives to petroleum-based products.

GBL is advancing its technology by developing a pilot plant for second-generation ethanol, aiming for commercialization soon. This innovation could enhance profitability and market competitiveness.

The Indian government's commitment to increasing ethanol blending targets to 20% by 2025 presents a favorable regulatory environment for GBL's growth. Additionally, potential price hikes for ethanol could improve margins.

With an expected improvement in profit margins due to enhanced operational efficiencies and the introduction of specialty chemicals, GBL's financial outlook remains positive. The company anticipates stronger cash flows from its diversified revenue streams in the upcoming quarters.

Financials

Particulars	FY22	FY23	FY24
Revenue (Rs in Mn)	17023	20147	16867
Total Expenses (Rs in Mn)	15694	18685	15532
EBITDA (Rs in Mn)	1329	1462	1335
PAT (Rs in Mn)	191	196	123
EPS (Rs)	3.7	3.8	2.4

* At highest price band # Post listing

IPO Details

Issue Open Date	23 October 2024
Issue Close Date	25 October 2024
Price Band (Rs.)	Rs.334 – Rs. 352
Issue Size*	Rs. 5547 Mn
Issue Size (Shares)	15,759,938
Market Lot	42 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 3,250.0 Mn
Issue Type	Book Building
Book Running Lead Manager	Equirus Capital Private Ltd and SBI Capital Markets Ltd.
Issue structure	QIB: 20% Non Institutional:15% Retail: 35% Anchor Investors: 30%
Credit of Shares to Demat Account	29 October 2024
Issue Listing Date	30 October 2024

* At highest price band

Key Business Highlights

- Godavari Biorefineries Limited (GBL) is a leading manufacturer of sugar, ethanol and ethanol-based chemicals in India. The company's product portfolio is dominated by green and environmentally friendly offerings including ethanol (570 KLPD capacity), and biochemicals (110KTPA).
- GBL is a pioneer in utilizing sugarcane juice and syrup to produce ethanol. GBL was the first company in India to establish a bio-based ethyl vinyl ether (EVE) manufacturing facility
- GBL has expanded its international footprint, with offices in the Netherlands and the US to serve clientele across more than 20 countries.
- The company's 'Jivana' brand has successfully penetrated the retail market to generate revenue from Rs 283mn in FY22 to Rs 842mn in FY24, at 72% CAGR.
- While GBL's revenue is well diversified (ethanol 28.5%, bio-chemicals 25.7%, sugar 32.5% and others 13.3% in FY24) its profitability is skewed towards ethanol (60% of EBIT) followed by sugar (20%), co-gen (8%), chemicals (7%) and others (4%).

Valuation

GBL's growth hinges on government's favourable ethanol policies and rising demand for bio-based chemicals. We have no doubt on government's commitment towards achieving 20% blending, which in our view, would benefit the sugar and ethanol sectors in India. Increasing consumer preference towards safer chemicals and tightening regulations by various governments globally on the use of hazardous chemicals, are sound long-term opportunities for the company. GBL's continuous focus on developing cleaner chemistry through its strong inhouse R&D would drive its growth in future. **We are recommending SUBSCRIBE rating to the IPO of Godavari Biorefineries Ltd. (GBL) for medium to long term perspective.**

Risk & Concern

- Depend on a few suppliers for supply of a significant portion of raw materials.
- Cost of materials consumed constituted a majority of the total expenses.
- Its sugar, distillery and cogeneration segments are subject to seasonal vagaries.
- Inability to set and/or control the prices of sugarcane, ethanol and sugar.
- Bio chemicals industry is capital intensive

Graphs & Charts

Figure 1: Revenue (Rs. Million)

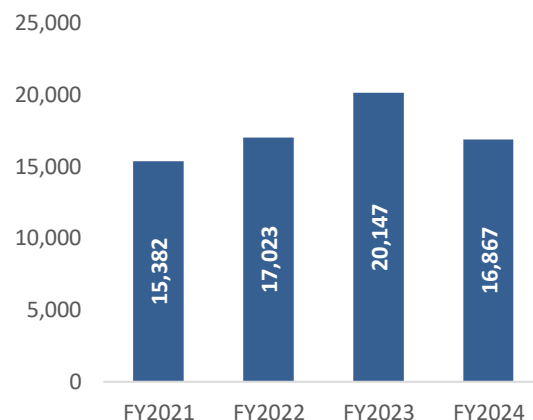


Figure 2: EBITDA Margin

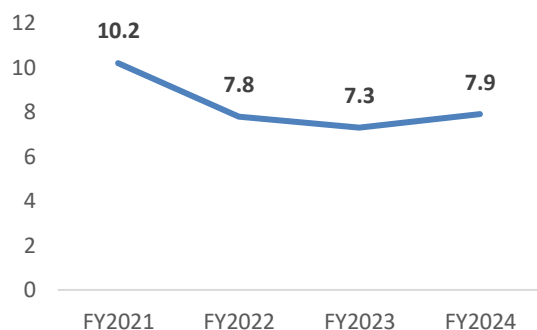


Figure 3: PAT (Rs. Million)

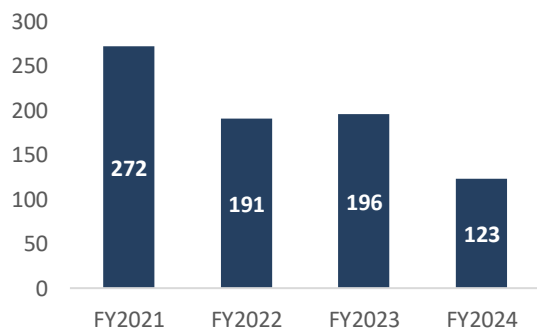
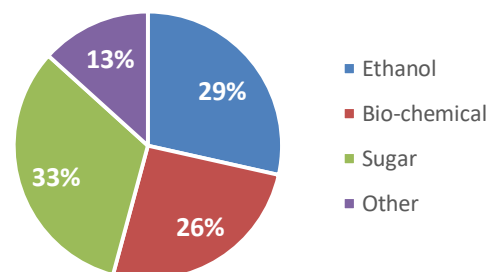


Figure 4: Revenue Diversification



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