Press Release

Gandhar Oil Refinery (India) Limited

December 11, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 1000.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs. 1000.00 crore bank facilities of Gandhar Oil Refinery (India) Limited (GORIL). The outlook is **'Stable'**.

About the Company

GORIL is a Mumbai based company incorporated in the year 1992. It was started by Mr. Ramesh Parekh, who is also the current Chairman. The Company is engaged in manufacturing products like industrial automotive lubricants, mineral oils, transformer oils, petroleum jelly and variety of specialty lubricants. It has an installed capacity of 232000 kilo liters (KL), with manufacturing facilities at MIDC Taloja & Silvassa, catering to overseas and domestic market respectively. The company is ISO 9001:2008, ISO 14001:2004, OHSAS 18001 certified and FDA approved for manufacturing pharmaceutical grade mineral oils and petrolatum.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Gandhar Oil Refinery (India) Limited (GORIL), Gandhar Shipping and Logistics Private Limited (GSLPL), Gandhar Global Singapore PTE Limited (GGSPL), Gandhar Oil and Energy DMCC (GOED). Extent of Consolidation: Full. The business and financial risk profile of Texol Lubritech FZC (TLF) - a JV of GORIL has been consolidated using the equity method. Together the entities are referred to as the 'Gandhar Group' (GG). The consolidation is in view of the common management, strong operational & financial linkages between the entities.

About the Group

Gandhar Group is a Mumbai based entity engaged in the lubricant manufacturing and coal trading. It began its operations in 1992 with the establishment of its flagship company GORIL. It is engaged in manufacturing of a variety of lubricants such as industrial /automotive lubricants, mineral oils, transformer oils, petroleum jelly and variety of specialty lubricants and trading of non-coking coal. Other entities in the Group include GSLPL, GGSPL, GOED and TLF. GSLPL is a Mumbai based company incorporated in 2010. It is engaged in providing logistical support to the flagship company's (GORIL) operations. It is fully owned by GORIL. GGSPL was a Singapore based company incorporated in 2012. It was started with the aim of providing raw material acquisition support to the flagship company's (GORIL) operations and cater to its overseas clientele. However, it has shut down operations in March 2020. It is a fully owned subsidiary of GORIL. GOED is a Dubai based company incorporated in 2014. It was also started with the aim of providing raw material acquisition support to the flagship company's (GORIL) operations and cater to its overseas clientele. It is completely owned by GORIL. TLF is a Sharjah based company which started its operations in 2019. It is engaged in manufacturing products like industrial automotive lubricants, mineral oils, transformer oils, petroleum jelly and variety of specialty lubricants. It is a 50 percent JV of GORIL. Its manufacturing facility is located in Hamriyah Free Zone, Sharjah.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the industry and established track record of operations**
  Gandhar Group is a Mumbai based entity engaged in the lubricant manufacturing and coal trading segments. It began its operations in 1992 with the establishment of its flagship company GORIL. It was started by Mr. Ramesh Parekh, who is also the current Chairman. He has an experience of over three decades in the industry. The day to day operations are managed his sons by Mr. Samir Parekh and Mr. Ashlesh Parekh, both of whom have over a decade of experience in the industry. The long operational track record and experience of the promoters have helped GG achieve a relatively large scale of operations. Its large scale of operations are reflected in consolidated revenue of Rs. 2502.24 crore in FY2020, Rs. 3567.53 crore in FY2019 and Rs. 2730.23 crore in FY2018.

  Acuité believes that GG will continue to benefit from its experienced management and established track record of operations.

- **Diversified product profile and reputed client base**
  GG is engaged in two primary segments; manufacturing of lubricants and trading of non-coking coal. The manufacturing segment the Group has a diversified product profile with application in a diverse range of industries. Its product portfolio includes industrial /automotive lubricants, mineral oils, transformer oils, petroleum jelly and variety of specialty lubricants. Products manufactured by GG have application in industries such as electricity generation and transmission, railways, pharmaceutical, FMCGs, steel, sugar, engineering equipment, chemical, rubber and tire manufacturing, automotive, texturizers, polymer and defense. The Group also caters to a reputed client base in more than 100 countries including UAE, Brazil, USA and Bangladesh. Besides having two units in India at Taloja and Silvassa it also has a plant in Sharjah held through its JV - TLF. Some of its noteworthy clients include State Electricity Boards, Indian Railways, Hindustan Unilever, Marico, TATA Group, Balmer Lawrie & Co. and Bajaj Corp. The company also has established relations with its suppliers. GG has entered into supply contracts with large international oil refineries such as Saudi Aramco and S-Oil Corporation.

  Acuité expects GG to continue deriving benefits from its established relations with reputed clientele and suppliers.

- **Comfortable financial risk profile**
  GG's has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.80 times and 2.47 times as on March 31, 2020. The leverage levels continue to remain low around 0.38 times as on March 31, 2020. TOL/TNW also improved to 1.76 times as on March 31, 2020. The interest coverage ratio (ICR) stood comfortable at 1.52 times in FY2020 and 1.71 in FY2019. The Group incurred capex of ~Rs. 19 crore over the last three years. GG's moderate cash accruals to the tune of about Rs. 15.39 crores have supported in minimizing the reliance on external debt lead to low gearing and external debt levels of 0.38 times and Rs. 111.03 crores as on March 31, 2020, respectively. GG has undertaken an expansion project of Rs. 30.00 Crore primarily funded by debt. However, GG's cash accruals over the next two years through 2023 are estimated to remain in the range of Rs. 36.00-54.00 crores which are comfortable to service its incremental repayment obligations, its routine capex and incremental working capital requirements. As a result, the gearing is expected to remain stable on back of absence of any major debt funded capex plan and healthy accretion to reserves.

- **Operations are moderately working capital intensive**
  GG's operations are moderately working capital intensive marked by GCA of 116 days in FY2020 and 105 days in FY2019. The receivable period stood at 65 days in FY2020 and 61 days in FY2019. GCA consist primarily of balance with Government authorities of ~Rs. 67.35 crore in FY2020 and Rs. 70.16 crore in FY2019. The Group maintains an inventory of around one month. The clients that the company deals with are large reputed companies thus reducing the counter party risk. The customer concentration risk is also lower as the top clients in the manufacturing segment only account for ~18 percent of the total sales. In the trading segment customer concentration is higher; however, the counterparties are state primarily electricity boards, thus reducing counterparty risk. Acuité believes GG's operations to remain moderately working capital intensive on account of large balances to be kept with Government Authorities.

Weaknesses

- **Decline in revenue and profitability**
  GORIL's (GG's flagship company) revenue has shown an uneven trend. On a standalone basis it stood at Rs. 2366.32 crore in FY2020, Rs. 3027.10 crore in FY2019 and Rs. 2363.04 crore in FY2018. It has achieved ~Rs. 888.23 crore in HY2021 (Provisional). The uneven trend is on account of fluctuating

revenue contribution from coal trading. The revenue from manufacturing has shown continuous growth for the period FY2018-2020. It stood at Rs. 1373.89 crore in FY2020, Rs. 1198.45 in FY2019 and Rs. 1014.68 crore in FY2018. It has achieved Rs. 761.61 crore in HY2021 (Provisional) despite the restrictions of COVID lockdown. The operating margin stood at 2.46 percent in FY2020, 2.27 percent in FY2019 and 5.04 percent in FY2018. The margins have declined significantly compared in FY2020 against FY2018. The decline in margins is on account of a higher proportion of coal trading in revenue coupled with a decline in profitability in coal trading segment. Coal trading operations have adversely affected operating margins. The management has tried to mitigate this by reducing proportion of coal trading in total revenue. Operating profit margin and net profit margin stood at ~ 5.31 percent ~2.03 percent respectively for HY2021 (Provisional).

Acuité believes GORIL's ability to show a sustained improvement in profitability will be a key rating sensitivity.

- **Susceptibility to volatility in raw material price prices and exposure to forex risk**

The key component of manufacturing lubricants is base oils. It forms ~80 percent of raw material costs. It is a derivative of crude oil produced by refining crude and therefore susceptible to volatility in the crude oil prices. Also, GORIL imports ~81 percent raw materials. Therefore GORIL is exposed to a significant risk of adverse movement in forex rates. Exports account for ~18 percent of revenue. Hence foreign exchange risk is reduced to some extent through a natural hedge. GORIL also follows an active hedging policy and ~70 percent of its foreign exchange exposure is hedged, thus substantial portion of forex risk is mitigated.

Liquidity Position: Adequate

GG's net cash accruals were stood in the range of Rs. 70.19 crore to 15.39 crore for period FY2018-FY2020 against repayment obligations in the range of Rs. 4.54 crores to 1.88 crores during the same period. Going forward GG's net cash accruals are expected to be in the range of ~Rs. 36.00-54.00 crore for period FY2021-2023 against repayment obligations in the range of Rs. 2.18 to 4.48 crore for the same period. The company's operations are moderately working capital intensive marked by GCA of 118 days in FY2020 and 105 days in FY2019. This makes the company dependent on bank borrowing to fund its working capital requirement. The average bank limit utilization stood at ~25 percent for the six month period ended in October 2020. Utilization of non-fund based limits stands at 60-70 percent. The group has maintained cash & bank balance of Rs. 8.50 crore in FY2020 and Rs. 6.16 crore in FY2019. GG's liquidity profile is expected to remain adequate over the medium term on account of its adequate cash accruals against repayment obligations, low bank limit utilization and adequate cash and bank balance.

Rating Sensitivities

- Sustained improvement in profitability while maintaining scale of operations will be a key rating sensitivity
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité believes GG will maintain 'Stable' business risk profile in the medium term on the back of established operational track record, long standing experience of the promoters in the business and established relations with reputed customers and suppliers. The outlook may be revised to 'Positive' in case of improvement in operating risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further decline in profitability or elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	2502.24	3567.53
PAT	Rs. Cr.	11.75	18.73
PAT Margin	(%)	0.47	0.53

Total Debt/Tangible Net Worth	Times	0.38	0.30
PBDIT/Interest	Times	1.52	1.71

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A-/Stable (Assigned)
Term Loan	January 17, 2019	8.30%	January 16, 2024	25.00	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	102.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	97.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	82.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A2+ (Assigned)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A2+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	138.50	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,446 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.