Press Release

Gandhar Oil Refinery (India) Limited

March 11, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE A | Stable | Upgraded	-
Bank Loan Ratings	900.00	-	ACUITE A1 | Upgraded
Total Outstanding Quantum (Rs. Cr)	1000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE A' (read as ACUITE A)** from **'ACUITE A-' (read as ACUITE A minus)** and short term rating to **'ACUITE A1' (read as ACUITE A one)** from **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs. 1000 Cr. bank loan facilities of Gandhar Oil Refinery India Limited (GORIL). The outlook is **'Stable'.**

Rationale for the Rating Upgrade

The rating upgraded takes into account the signifncant improvement in GG's (Defined below) operating profitability in FY2021 and 9M FY2022. This is primarily on account of reduction of in revenue from loss incurring coal trading segment. The rating also takes comfort from the Group's established track record of operations, relationship reputed clientele and comfortable financial risk profile. The rating constrained on account of some elongation in working capital cycle and susceptibility of Group's profitability to volatility in raw material prices and foriegn rates. Sustaining profitability over the medium term with continued reduction in coal trading segment and restricting any further elongation in working capital cycle will continue to remain rating sensitivity factors.

About the Company

GORIL, incorporated in the year 1992, is engaged in the specialty oils industry. It was started by Mr. Ramesh Parekh, who is also the current Chairman. The Company is engaged in manufacturing products like - white oils and other allied products which have end applications in cosmetics, healthcare, pharmaceuticals and chemicals segments; lubricants (industrial and automotive oils); other specialty oils (transformer oils and rubber processing oils). White Oils, lubricants and other specialty oils accounted for 64 percent, 18 percent and 17 percent respectively of its manufacturing revenues in FY2021. GORIL has an installed capacity of 2,32,000 kilo liters (KL) which is in the process of being expanded to 3,32,000 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. The Company was also historically engaged in coal trading, however the scale of operations has reduced considerably in line with the promoters stated focus on deepening its presence in the

Specialty Oils industry and particularly in the white oils segment.

About the Group

Gandhar Group is a Mumbai based entity manufacturing products like - white oils and other allied products and began its operations in 1992 through its flagship company GORIL. The Group was also historically engaged in coal trading, however the scale of operations has reduced considerably. Other entities in the Group include GSLPL, GGSPL, GOED and TLF (Defined below). 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. This entity has been shut down in November 2020. 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 white oils, petroleum jelly, industrial and automotive lubricants, transformer oils, and variety of other specialty oils. It is a 50 percent JV of GORIL. Its manufacturing facility is located in Hamriyah Free Zone, Sharjah.

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) (Only till November 2020 - closed down after that), 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.
Extent of Consolidation: Full

Key Rating Drivers

Strengths

Extensive experience of promoters in the industry, established relationships with reputed clientele /suppliers and long operational track record

Gandhar Group 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 and establish relationships with reputed clients and suppliers. Its large scale of operations are reflected in consolidated revenue of Rs. 2220 crore in FY2021, Rs. 2502 crore in FY2020 and Rs. 3568 crore in FY2019. GG's manufacturing segment has products with application in a diverse range of industries. Its product portfolio includes white oils, petroleum jelly, industrial /automotive lubricants, transformer oils and variety of other specialty oils. Products manufactured by GG have application in industries such as pharmaceutical, FMCGs, texturizers, polymer, electricity generation and transmission, railways, steel, sugar, engineering equipment, chemical, rubber and tire manufacturing, automotive, 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 Hindustan Unilever (including Unilever internationally), P&G, Dabur, Marico, Sun Pharma, Glenmark, TATA Group, Balmer Lawrie & Co., Bajaj Corp, Indian Railways and State Electricity Boards. 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 believes that GG will continue to benefit from its experienced management, established relations with clientele/ suppliers and long track record of operations.

Comfortable financial risk profile

GG’s financial risk profile has remained comfortable marked by tangible net worth of Rs. 451.23 crore as on 31 March 2021 against Rs. 376.15 crore as on 31 March 2020. The total debt stood at Rs. 85.22 crores as on 31 March, 2021 against Rs. 141.81 crore as on March 31, 2020. This includes Rs. 57.91 crore working capital loans, Rs. 17 crores of long term loans and unsecured loans from related parties of 10.37 crore. Besides these the Group also has Non fund based facilities of Rs. 637 crore in form LC and BG. The gearing stood at 0.19 times as on March 31, 2021 against 0.38 times as on March 31, 2020. However the gearing inclusive of non-fund based limits stands high at ~1.69 times as on March 31, 2021 and ~2.36 times as on March 31, 2020. Interest coverage ratio (ICR) stood comfortable at 3.88 times in FY2021 as against 1.52 times in FY2020. DSCR stood at 3.17 times. This is on account of increase in profitability. The coverage indicators are expected to improve going forward on account of improved profitability. The TOL/TNW stood at 1.47 times as on March 31, 2021 against 1.76 times as on March 31, 2020. Going forward GG's gearing is expected to remain stable in absence of any major debt funded capex and interest coverage is expected to be in the range of 4-6 times over the medium term.

Improvment in operating profitability

GG’s profitability has seen a significant improvement in operating performance on account of reduction in coal trading business which was incurring losses. Contribution of trading reduced to 11 percent in FY2021 against 42 percent in FY2020. This has resulted in reduction the revenue to Rs. 2220 Cr. in FY2021 from Rs. 2502 Cr. in FY2020, however the operating profitability has improved significantly to 5.36 percent in FY2021 from 2.49 percent in FY2020. Further, contribution to revenue by coal trading has reduced to 2 percent for 9M FY2022. Revenue and operating margins stood at Rs. 2272 and 9 percent for 9M FY2022 (Provisional).

GG's ability to sustain its profitability over the medium term with continued reduction in coal trading segment will remain a key rating sensitivity.

Weaknesses

Elongation in working capital cycle

GG’s operations are moderately working capital intensive marked by gross current assets of 143 days in FY2021 increasing from 118 days in FY2020. This is primarily on account of increase in receivable period to 85 days FY2021 from 68 days in FY2020. GCA also consists of balance with Government authorities of ~Rs. 57 Cr. in FY2021 and Rs. 67 Cr. in FY2020. 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 ~17 percent of the total sales.
Acuité believes GG’s ability to restrict further elongation in working ccapital cycle will remain key rating sensitvity factor.

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

The key component of manufacturing specialty oils and 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. The company holds requisite quantity of inventory and has ‘pass through’ clauses in the contracts with the customers to mitigate the risk of volatility in commodity prices thereby protecting its margins. Also, GG imports ~85 percent raw materials. Therefore, GG is exposed to a significant risk of adverse movement in forex rates. Exports account for ~28 percent of revenue. Hence foreign exchange risk is reduced to some extent through a natural hedge. GG also follows an active hedging policy and ~70 percent of its foreign exchange exposure is hedged, thus substantial portion of forex risk is mitigated.

ESG Factors Relevant for Rating

Oil and Gas business has a substantial carbon emissions and toxic waste footprint. Issues like waste and water management, managing environmental impacts and achieving energy efficiency are significant to the hydrocarbon exploration and refining industry. Furthermore, sustainable procurement is also key material issues to the industry. Labour management, occupation and workplace health & safety standards and community development are important social related factors that can influence social score in the oil & gas industry. Other material issues include product quality, product safety and supply chain management. For Oil & Gas business, corporate governance remains a key risk. Regulatory compliance, board oversight and business ethics are sensitive issues.

Rating Sensitivities

Sustained improvement in profitability while maintaining scale of operations

Any elongation of working capital cycle leading to increased dependence on banking borrowing

Material covenants

None

Liquidity Position: Strong

GG's net cash accruals were stood in the range of Rs. 6-85 Cr. period FY2019- FY2021 against repayment obligations in the range of Rs. 3-5 Cr. during the same period. Going forward GG's net cash accruals are expected to be in the range of ~Rs. 150-160 crore for period FY2022-2023 against repayment obligations in the range of Rs. 3 -5 Cr. for the same period. The company's operations are moderately working capital intensive marked by GCA of 142 days in FY2021 . This makes the company dependent on bank borrowing to fund its working capital requirement. The average fund based and non-fund based bank limit utilization for the six month period ended in December 2021 stood at ~7 percent and 83 percent respectively. The group has maintained cash & bank balance of Rs. 13.11 crore in FY2021 and Rs. 8.50 crore in FY2020. GG's liquidity profile is expected to remain strong over the medium term on account of its healthy cash accruals against repayment obligations, low bank limit utilization and healthy cash and bank balance.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	2220.44	2502.24
PAT	Rs. Cr.	73.79	11.75
PAT Margin	(%)	3.32	0.47
Total Debt/Tangible Net Worth	Times	0.19	0.38
PBDIT/Interest	Times	3.88	1.52

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Application Of 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

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Dec 2020	Cash Credit	Long Term	5.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	97.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	27.50	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	38.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Proposed Bank Facility	Short Term	138.50	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	30.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	55.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	55.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	82.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	110.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	7.50	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE A- | Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	102.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	75.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	105.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 | Upgraded (from ACUITE A2+)
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A1 | Upgraded (from ACUITE A2+)
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A1 | Upgraded (from ACUITE A2+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE A | Stable | Upgraded (from ACUITE A-)
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A | Stable | Upgraded (from ACUITE A-)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A | Stable | Upgraded (from ACUITE A-)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A | Stable | Upgraded (from ACUITE A-)
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A | Stable | Upgraded (from ACUITE A-)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE A1 | Upgraded (from ACUITE

							A2+)
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A1 | Upgraded (from ACUITE A2+)
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	32.00	ACUITE A1 | Upgraded (from ACUITE A2+)
IDFC First Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 | Upgraded (from ACUITE A2+)
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A1 | Upgraded (from ACUITE A2+)
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE A1 | Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	124.50	ACUITE A1 | Upgraded (from ACUITE A2+)
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	107.00	ACUITE A1 | Upgraded (from ACUITE A2+)
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE A1 | Upgraded (from ACUITE A2+)
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A1 | Upgraded (from ACUITE A2+)
							ACUITE A1 |

Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	91.00	Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not Applicable	Term Loan	17-01-2019	Not available	16-01-2024	25.00	ACUITE A | Stable | Upgraded (from ACUITE A-)

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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 8,850 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 Kanjurmarg, Mumbai.