

GULF PETROCHEM FZC

Ratings

Facilities	Amount	Ratings ¹	Remarks
Long/Short term Bank Facilities	AED 1469.3 million (Rs.2500.18 crore)^	CARE BBB+ [Triple B Plus]	Assigned
Short term Bank Facilities	AED 57 million (Rs.97 crore)^	CARE A3+ [A Three Plus]	
Total Facilities	AED 1526.3 million (Rs.2597.18 crore)^		

Conversion rate 1 AED = Rs.17.02

Rating Rationale

The ratings of Gulf Petrochem FZC favourably factors vast experience of the management in downstream oil sector and well established track record, locational advantage from being a part of tax-free zone and wide geographical converge. Besides, the rating also takes into cognisance relatively better margins as compared to pure trading business model, given the mix of trading and manufacturing activities, group synergy and modest debt protection metrics.

However, the rating strengths are offset by credit enhancements extended for bank facilities of group companies that includes project stage company, working capital intensive nature of business and inherent business risk arising on account of predominant trading operations.

Ability of the company to effectively manage hedging of inventory, improve trade volumes and profitability, effectively manage working capital and satisfactory performance of subsidiaries where credit enhancements have been extended are the key rating sensitivities.

Background

Gulf Petrochem FZC (GPFZC) is a closely held company promoted by Mr. Ashok Goel and Mr. Sudhir Goel and was incorporated in April, 1998. The company operates out of the Hamriyah Free Zone Authority (HFZA), Sharjah in the United Arab Emirates and was converted into Free Zone Company (FZC) in December 2006. It is engaged primarily in the areas of trading of petroleum products, manufacturing of grease and bitumen and port storage terminalling activity. Although the company faces competition from established global players in the field of petroleum trading and port storage terminalling activity, the company enjoys a significant market share in local markets in some of the products such as bitumen and base oil.

Credit Risk Assessment

Experienced management in downstream oil sector and established track record: The business of GPFZC is supported by Mr. Ashok Goel, Mr. Sudhir Goel, Mr. Prerit Goel and Mr. Manan Goel having vast experience in the Oil and Gas industry. Mr. Sudhir Goel has about 25 years of experience in marketing oils and chemicals. Mr. Manan Goel (Director, MBA from Cardiff University, UK) and Mr. Prerit Goel (Director, MBA from SP Jain, Mumbai) are group heads for Operations & Marketing and Supply & Trading respectively. The promoters have employed technically qualified management executives having considerable experience in commissioning and implementing projects.

Over the years, the promoters have constantly expanded the trading operations globally and have also diversified the business by establishing manufacturing operations, and storage terminals in Sharjah. Such expansion has been consistently backed by the promoters by way of infusing equity in the business and retention of profits.

Diversified business profile and Locational advantage

GPFZC's is predominantly into trading which comprised 85% of the total sales in CY12 with balance being manufacturing income. The company caters to both local and export market wherein the domestic sales in United Arab Emirates (UAE)

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

contributed 55% of the total turnover for CY12. Turnover has grown at a CAGR of 73% for the period CY10-12 mainly backed by increasing trading volumes of fuel oil and Base oil along-with manufacturing expansion..

GPFZC trades in Fuel Oil (59% of trading income in CY12), Base Oil (22% of trading income in CY12), Bitumen (18% of trading income in CY12) and Gas Oil (1% of trading income in CY12). The company follows two models viz. Back to Back (BTB) trading for fuel oil and gas oil and balance being stock and sale (S&S) trading. Also, the company procures Base oil, Fuel Oil (off-spec) and does value-addition in terms of blending to convert it into on-spec product and sell it under S&S model which fetches relatively better margin. GPFZC undertakes manufacturing of Grease and Bitumen with an installed capacity of 36000 MTPA each in HFZA.

GPFZC has Port Storage Terminal in Hamriyah Free Zone that was commissioned in 2006 with a storage capacity of 35,000 cu.m for captive consumption. The storage terminal comprises 14 major & six minor tanks and has a dedicated berth at Hamriyah Port Jetty with Draft of 4.5m for Docking of regular/chartered vessels. Besides, the company also owns 32 oil tankers used for road transportation to cater to domestic demand.

The profitability margin is primarily driven by manufacturing activity followed by trading activity particularly base oil. Given the mix of trading and manufacturing activities, GPFZC has relatively better margins as compared to pure trading business model.

Group synergy in terms of infrastructure such as warehousing, marketing network and logistics

At group level, GPFZC has wide geographical coverage through its subsidiaries and associates. GPFZC, Fujairah (GP Fujairah), incorporated in 2008, has Oil Storage Terminals with a capacity of 412000 CBM for third party leasing. GPFZC has 70% shareholding in GP Fujairah. The total cost for GP Fujairah was USD 136.54 Mn and the operations have commenced in March 2013. Gulf Petrochem, India (GPIPL), is an upcoming project in Pipavav Port, Gujarat, with a capacity of 3,18,000 KL. The project cost is Rs.385.47 crore and is scheduled to complete by September 30, 2014.

The trading operations are logistically facilitated by 7 vessels owned by ASPAM Navigation Ltd. (ASPAM), a wholly owned subsidiary of GPFZC. For CY12, ASPAM posted turnover of AED 34 Mn. and PAT of AED 6 Mn. Gulf Petrochem, Dubai, DMCC (GP Dubai) is a 100% subsidiary which undertakes bunkering activity of refined oil products and posted a turnover and PAT of AED 408 Mn. and AED 7.58 Mn. respectively. Gulf Petrochem PTE. Ltd. (GP Singapore) and Gulf petrochem SA, Geneva (GP Geneve) are engaged mainly in trading of downstream oils. Besides, GPFZC has expanded in India with bunkering operations under Gulf Petrochem Energy Pvt. Ltd. (GPEPL) and trading operations under Aspam Petronergy Pvt. Ltd. (APPL) in India. The group has integrated business operations and such synergy is viewed favorably from credit perspective.

Inherent business risk arising due to absence of long term contract

GPFZC has an active trading desk headed by Mr. Prerit Goel for sourcing of Fuel Oil, Base Oil, bitumen and Gas Oil from major refineries and from open market across the globe and cater to meet the market demand. The commodities traded by GPFZC are directly linked to global crude oil prices that are highly volatile in nature though the company passes on the incremental cost of inputs to the customers as evident from relatively stable GP margins. GPFZC doesn't enter into any long term contract for procurement and supply of the commodities traded which is an inherent risk is pertaining to oil trading business. Thus, effective management of trading operations by GPFZC amidst volatile crude prices, demand-supply dynamics and changing political scenario in related geographies shall remain critical.

Working capital intensive operations

GPFZC relies on external fund based borrowings for its working capital requirement that emanates from spot purchases petrochemicals vis-à-vis credit period extended to the customers. The company stocks inventory in owned storage tanks in Hamriyah Free Zone for about a period of upto 1 month. Thus on account of relatively higher inventory and receivable days, the operating cycle of the company stood at 53 days in CY12 with average WC utilisation of 77% (Sep 12-Sep13). Nevertheless, GPFZC has moderate debt protection metrics with Total debt /Gross cash accruals of 4.14x and overall gearing of 1.09x as at December 31, 2012. With growing operations and increasing thrust on value added trading activity, prudent working capital management shall be a key monitorable.

Credit Enhancements extended for bank facilities of group companies

GPFZC has extended corporate guarantee and letter of comforts to its group companies. The contingent liability as on September 30, 2013 was AED 548.39 Mn. The break-up is presented in the following table:

Name of Subsidiary / Associate	Guarantee/ LOC	Amount
GP Fujairah	Corporate Guarantee	USD 80 Mn. (AED 294 Mn.)*
GP India	Corporate Guarantee	USD 41.22 Mn. (AED 151 Mn.)*
GP Dubai, GP Singapore, GP Geneve)	Corporate Guarantee	USD 28 Mn. (AED 103 Mn.)
GPEPL - Associate	Letter of Comfort	AED 0.39 Mn.^
Total		AED 548.39 Mn.

*considering conversion rate of 1USD = 3.67 AED

^considering conversion rate of 1INR = 0.06 AED

The financial support extended to group companies by GPFZC is 76% of the Networth of the company as at December 31, 2012 which is substantially high. GP Fujairah has recently commenced operations and yet to stabilize and GPIPL is a project stage company and the project execution has been staggered due to delayed receipt of Environment Clearance. Given that the subsidiaries have high likelihood of dependence on GPFZC in the initial phase of operations, satisfactory performance of such entities shall remain a key rating sensitivity.

Hedging risk

GPFZC's trading desk handles wide range of products including Fuel Oil, Gasoil, Naphtha, Bitumen Base Oil and industrial lubricants. The hedging policy is for price variations in Fuel oil, Gas oil and Naphtha products as the company fixes its price on the sales contract at the time the contracts are signed. To mitigate the price risk arising on account to time lag in purchases and sales, the company takes forward contracts. Ability of the company effectively manage the hedging of inventory shall remain crucial.

Currency risk

UAE's currency, the Arab Emirate Dirham (AED), is pegged to the United States Dollar at a fixed rate of AED3.673- US\$1. The currency peg helps the country to benefit from the financial stability of the US. Due to the peg, the value of the Dirham is directly linked to the happening in the US economy. The geographical distribution of sales of GPFZC is as follows:

Particulars	CY12	%	CY11	%	CY10	%
Within UAE	2208.62	55	1136.68	51	842	63
Outside UAE	1779.02	45	1083.88	49	485	37
Total	3988		2221		1327	

Given that the company's operations are mainly executed in two currencies, i.e. AED and USD, together with the fixed currency peg, helps insulate GPFZC from currency risk.

Political and Economy risk

UAE is a federation of 7 emirates – Abu Dhabi, Ajman, Al Fujayrah, Rash Al Khaimah, Sharjah, Dubai and Umm al Qaywayn. Abu Dhabi serves as the capital of the UAE. Abu Dhabi along with Dubai serve as the commercial and cultural centre of the country. UAE is regarded as one of the most liberal countries in the Gulf.

UAE is characterized as an open economy with a high per capita income. The country has registered a CAGR of 3.9% over the last five years and is ranked the 16th richest country in the world by the World Bank (2012). The growth in the economy augers well for the company and the economy related risk seems low for GPFZC.

Financial Performance

(AED Mn.)

For the period ended / as at Dec.31,	2010	2011	2012
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Net Sales	1327.00	2221.00	3988.00
Total Operating income	1327.20	2227.40	4000.80
PBILDT	110.30	178.60	227.40
Interest	12.10	28.40	47.10
Depreciation	31.90	41.20	47.20
PAT	67.20	109.60	143.10
Gross Cash Accruals	99.20	150.80	190.30
Financial Position			
Equity Capital/Partners' Capital	160.50	300.00	510.00
Networth	275.80	525.00	723.00
Total capital employed	506.00	980.00	1509.00
Total Debt	230.50	455.10	786.10
Key Ratios			
Growth			
Growth in Total income (%)	71.42	67.83	79.62
Growth in PAT (after D.Tax) (%)	110.15	63.00	30.55
Profitability			
PBILDT/Total Op. income (%)	8.31	8.02	5.68
PAT (after deferred tax)/ Total income (%)	5.07	4.92	3.58
ROCE (%)	20.21	18.57	15.28
Solvency			
Long Term Debt Equity ratio (times)	0.13	0.11	0.11
Overall gearing ratio(times)	0.84	0.87	1.09
Interest coverage(times)	9.11	6.29	4.83
Term debt/Gross cash accruals(years)	0.35	0.4	0.43
Total Debt/GCA (years)	2.32	3.02	4.14
Liquidity			
Current ratio(times)	1.3	1.37	1.35
Quick ratio(times)	1.05	1.1	1.03
Turnover			
Average collection period (days)	37	42	44
Average creditors (days)	7	10	12
Average inventory (days)	12	17	20
Operating cycle (days)	42	49	53

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(This follows our brief rational for entity published on 04 December 2013)

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