Gandhar Oil Refinery (India) Limited

April 08, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities	-	-	**Revised to CARE BBB; Stable from CARE BBB+; Stable, and Withdrawn**
Long-term/Short-term Bank Facilities	-	-	**Revised to CARE BBB; Stable/ CARE A3 from CARE BBB+; Stable/ CARE A3+, and Withdrawn**
Total Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has downgraded and withdrawn the outstanding ratings of 'CARE BBB; Stable/CARE A3' [Triple B; Outlook: Stable/ A Three] assigned to the bank facilities of Gandhar Oil Refinery (India) Limited (GORL) with immediate effect. The above action has been taken at the request of GORL and 'No Objection Certificates' & 'No Due Certificate' received from the banks that have extended the facilities rated by CARE, also proposed facilities have been withdrawn at the request of GORL.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of promoters in specialty oils and coal trading segment

Incorporated in 1992, GORL is led by Mr. Ramesh B. Parekh, Chairman, Mr. Samir Parekh and Mr. Aslesh Parekh, Joint Managing Directors who are highly experienced in manufacturing of industrial and specialty oils. The company has professional management team comprising family members to oversee day to day operations of the company. The company has grown over the years and has comprehensive product offering in both, local and international markets.

Strong and established market position in petroleum products

The company is in business of manufacturing of specialty oils since last three decades. In this course, it has established strong relationship with its clients. It has a customer base of around 2700 clients, out of which around 75-80% give repeat orders. GORL at present has installed capacity on 2,32,000 KL/MT on two shift basis. The average capacity utilization for past three years has been more than 90%.

Diverse product portfolio catering to well established and diversified clientele base

GORL manufactures variety of petroleum products such as Industrial/ Automotive Lubricants, Mineral Oils, Transformer Oils, Petroleum Jelly and a variety of Specialty Lubricants. The company offers its product range to renowned companies across varied industries such as Pharmaceuticals, FMCG, Power, Automotive, Rubber, Cosmetics, Steel and Chemical etc. Additionally, the company is also engaged in trading of imported non-coking coal. Such diversification enables the company to shield its revenue growth from any untoward demand scenario in a particular industry to a large extent. Petroleum products contributed 60% and trading of non-coking coal 40% to the total revenue in FY20.

Established coal sourcing arrangement

GORL has developed strong relationship with miners in Indonesia and South Africa for procurement of non-coking coal. GORL has a practice of not entering into long term coal sourcing contract since it does not have any long-term coal supply contracts. However, established business relationship with coal miners has led to timely and assured delivery of imported coal for the past many years.

Key Rating Weaknesses

Decline in scale of operations in FY20

On consolidated basis, the total income from operations (TOI) declined from Rs.3,577 crore in FY19 to Rs.2,509 crore in FY20. The decline was due to company's conscious decision of curtailing coal trading. Coal trading contributed 40% to the total revenue in FY20 as compared to 60% in FY19. Also, the company's operations were impacted by covid induced lockdown in later part of the March, however, when compared to the projections revenue was still lower. Total revenue in H1FY21 was Rs.888.23 crore out which around Rs.583 crore was achieved in Q2FY21 and remaining in Q1FY21. Revenue in Q1FY21 was hit due to lockdown restrictions. The total contribution from coal was 14.44% only in total sales in H1FY21.

Thin profitability margins since FY19

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

Since FY19, on consolidated basis, PBILDT margin of the company has been lower than 3% which in FY18 was around 5%. Around 90% of the total cost is cost of goods manufactured/ cost of traded goods of the total sales price. During FY20, PBILDT margin slightly improved from 2.27% in FY19 to 2.76% in FY20 on account of conscious curtailment of trading of coal which has lower margins, lower foreign exchange loss as well as lower freight charges. Even though improved from FY19, profitability margins continue to be thin.

Moderate financial risk profile

GORL has moderate financial risk profile marked by its high overall gearing (including LC backed creditors). On a consolidated basis, interest coverage deteriorated from 1.68x in FY19 to 1.39x in FY20 on account of lower absolute PBILDT as well as higher interest and finance charges.

Working capital intensive operations

GORL imports more than 90% of base oil and entire non-coking coal by opening LC (Letter of Credit). The company extends an average credit period of 70-90 days to its clients. Besides, the company maintains stock of around 30-45 days. Hence, the company relies heavily on external borrowings largely in the form of non-fund based limits resulting into high gearing levels. The working capital utilisation for the fund-based facilities has been moderate i.e. in the range of 40-50%, whereas non-fund based has been around 80%. The non-fund based is higher majorly due to higher utilisation of LC limits for import of goods.

Analytical approach: Consolidated. The Subsidiaries and JV either are in similar line of business or have operational linkages with GORL. GORL has three subsidiaries and one JV.

Subsidiaries consolidated are: All these Subsidiaries are wholly owned.

1. Gandhar Shipping and Logistics Private Limited
2. Gandhar Global Singapore Pte Limited
3. Gandhar Oil and Energy DMCC

JV Consolidated: Texol Lubritech FZE

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for short-term instruments
Financial ratios – Non-financial sector
Rating Methodology – Wholesale trading
Rating Methodology – Manufacturing Companies
Liquidity Analysis of Non-financial sector Entities

About the Company

Gandhar Oil Refinery India Limited (GORL) was incorporated in 1992 by Mr. Ramesh B Parekh, Chairman of the company. The company is into manufacturing of petroleum products and trading of non-coking coal. GORL caters to diverse end-user segments such as power, Automotive, rubber, cosmetics, steel, chemical and pharmaceutical, etc. GORL has two manufacturing units with one at MIDC Taloja, Maharashtra and the other located at Silvassa (U.T.). GORL manufactures variety of petroleum products such as Industrial/Automotive Lubricants, Mineral Oils, Transformer Oils, Petroleum Jelly & Variety of Specialty Lubricants. The company also exports finished products such as Petroleum Jelly, White Oil, Mineral Oil, Liquid Paraffin, etc. mainly to South America, Africa, Asia, Middle East, Europe and USA. GORL imports various grades of coal from overseas markets such as Indonesia and South Africa and selling it locally to consumer industries across the country like refineries, paper mills, metals & alloys, cement industries, power, etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3,577.25	2,509.12
PBILDT	81.32	69.13
PAT	18.70	11.75
Overall gearing (times)	1.98	-*
Interest coverage (times)	1.68	1.39

A: Audited

**Overall gearing as on March 31, 2020 could not be calculated due to non-receipt of total debt figure.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	1)CARE BBB+; Stable (06-Feb-20)	1)CARE BBB+; Stable (21-Jan-19)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	1)CARE BBB+; Stable / CARE A3+ (06-Feb-20)	1)CARE BBB+; Stable / CARE A3+ (21-Jan-19)
3.	Term Loan-Long Term	LT	-	-	-	-	1)CARE BBB+; Stable (06-Feb-20)	1)CARE BBB+; Stable (21-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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