Arabian Petroleum Limited

November 19, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long Term Bank Facilities	11.93	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable; ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	**11.93 (Rs. Eleven Crore and Ninety-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Arabian Petroleum Limited to monitor the rating(s) vide e-mail communications/letters dated October 06, 2021, October 26, 2021, October 27, 2021 and November 08, 2021 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Arabian Petroleum Limited has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Arabian Petroleum Limited's bank facilities will now be denoted as **CARE BB; Stable ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings take into account relatively modest scale of operations albeit growth in total operating income, moderately low profit margins with susceptibility to volatile raw material prices, moderately leveraged capital structure, working capital intensive nature of operations and presence in highly competitive & fragmented industry.

The rating, however, continues to derive strengths from established track record of operations coupled with highly experienced and qualified promoters in manufacturing of industrial & automotive lubricants and moderate debt coverage indicators.

Detailed description of the key rating drivers

At the time of last rating on December 29, 2020, the following were the rating strengths and weaknesses (Updated for FY21 Provisional financials provided by client).

Detailed description of Key rating drivers

Key rating Weakness

Modest scale of operations albeit growth in total operating income: TOI (Total Operating Income) has increased to Rs. 110.19 crore in FY21 from Rs. 84.12 crore in FY20. Further, the tangible net-worth base improved and stood at Rs. 14.93 crore as on March 31, 2021 vis-à-vis Rs. 10.27 crore as on March 31, 2020 due to accretion of profits to reserves. However, the scale of operations continues to remain relatively modest.

Moderately low profit margins with susceptibility to volatile raw material prices: The PBILDT margin of the company has deteriorated from 6.54% in FY20 to 5.91% in FY21 owing to increase in the raw material consumption cost and employee cost. However, the PAT margin has improved and remained moderate at 4.17% in FY21 vis-à-vis 3.33% in FY20 owing to tax expense not provided for in FY21 provisional financials. Further, the profit margins are susceptible to the volatility in raw material prices.

Moderately leveraged capital structure: The capital structure continues to remain moderately leveraged marked by overall gearing stood at 1.47 times as on March 31, 2021 vis-à-vis 1.61 times as on March 31, 2020. The same slightly improved due to increase in the tangible networth base on account of moderate accretion of profits in the business. The tangible networth has increased to Rs. 14.93 crore as on March 31, 2021 to Rs.10.27 crore as on March 31, 2020 while the total debt has increased on y-o-y basis to Rs. 21.93 crore as on March 31, 2021 vis-à-vis Rs. 16.54 crore as on March 31, 2020 due to

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

availment of term loans, increase in the utilization of working capital limits to meet the working capital requirements of the company.

Working capital intensive nature of operations: The operations of the company remained working capital intensive in nature with majority of funds blocked in debtors and a moderate portion in inventory. The inventory holding deteriorated and stood at 44 days in FY21 vis-à-vis 37 days in FY20. However, the collection period has slightly improved to 63 days in FY21 from 72 days in FY20. Nevertheless, the operations remained working capital intensive led by average utilization of working capital limits stood at 90% for past twelve months ending October 31, 2021. Further, the majority of its working capital requirements primarily met through working capital borrowings and hence, utilization of working capital limits remained high.

Presence in highly fragmented and competitive nature of shipping industry: APL operates in a highly competitive & fragmented industry with a large number of small & medium-sized players engaged in manufacturing of industrial & automotive lubricants. Moreover, the limited value addition and moderate entry barriers intensify the already prevailing competition in the market. This is evident from the low profit margins and liberal credit policies adopted by the company.

Key Rating Strengths

Long track record of operations with experienced and qualified directors: APL possesses an established track record of over a decade of operations in manufacturing of industrial & automotive lubricants. The industrial lubricants are sold under the brand-named SPL, whereas the automotive lubricants are sold under the brand named Arzol. SPL comprises various industrial lubricants viz. mainstream, metal working, specialties and greases, whereas Arzol comprises various automotive lubricants. The overall operations of APL are looked after by the promoters Mehta family viz. Mr. Hemant Mehta, Mrs. Darshana Mehta, Mr. Manan Mehta and Mr. Dharman Mehta, who possess an average experience of over 18 years in the industrial & automotive lubricant manufacturing industry.

Moderate debt coverage indicators: The debt coverage indicators continue to remain moderately comfortable marked by interest coverage stood at 5.35 times in FY21 vis-à-vis 5.37 times in FY20. Further, despite improved operating profitability, the interest coverage has remained at the same level owing to higher interest cost. Besides, despite increase in the debt level owing to higher dependence on working capital bank borrowings and additional term loans availed, total debt to GCA has improved to 4.15 times in FY21 vis-à-vis 4.63 times in FY20 led by better gross cash accruals.

Liquidity: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. The liquidity position of APL is stretched marked by low cash balance and elongated operating cycle. As on March 31, 2021, APL has low cash and bank balance of Rs. 0.15 crore. Further, its operating cycle has elongated at 71 days in FY21 vis-à-vis 67 days during FY20 mainly on account of deterioration in inventory period. Besides, the average utilization for the working capital limits stood at 90% during past 12 months ended Oct 2021. Cash flow from operating activities stood negative of Rs. 3.49 crore in FY21 (vis-à-vis positive at Rs. 3.74 crore in FY20).. Current and quick ratio remained at 1.77 times and 1.06 times respectively as on March 31, 2021 (vis-à-vis current ratio and quick ratio of 1.45 times and 1.01 times as on March 31, 2020 respectively).

Analytical approach: Standalone

Applicable Criteria

Policy in respect of Non-cooperation by issuer
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 2009 as a private limited company by Mr. Hemant Mehta along with his family members, Arabian Petroleum Private Limited (APPL) was later converted into a public limited company in 2013 and renamed as Arabian Petroleum Limited (APL). APL is an ISO 9001:2008, ISO 14001:2015 and ISO 45001:2018-certified company engaged in manufacturing of a wide range of industrial & automotive lubricants which find a wide range of industrial applications in various sectors viz. automotive, engineering, chemicals, pharmaceuticals, other industrial sectors, etc. The products manufactured by the company are sold to various distributors and end-users across various states of India and also exported to various countries across Americas, East Africa, and other countries viz. Nepal, Bangladesh, Vietnam, etc. On the other hand, the primary raw materials viz. base oil & additives, drums and semi-finished lubricants are procured from the domestic manufacturers of the same across Mumbai, Navi Mumbai, Thane, Raigad, etc. The administrative office and manufacturing facility of the company is located at Ambernath in Thane, Maharashtra, equipped with an installed capacity of 30,000 MTPA (utilized at ~60% annually).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)	H1FY22 (Prov.)
Total operating income	84.12	110.19	NA
PBILDT	5.50	6.51	NA
PAT	2.80	4.59	NA
Overall gearing (times)	1.61	1.47	NA
Interest coverage (times)	5.37	5.35	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable
Disclosure of Interest of Managing Director & CEO: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	October 2023	2.93	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	-	9.00	CARE BB; Stable; ISSUER NOT COOPERATING*

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-Term Loan	LT	2.93	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (29-Dec-20)	1)CARE BB; Stable (24-Oct-19)	-
2	Fund-based - LT-Cash Credit	LT	9.00	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (29-Dec-20)	1)CARE BB; Stable (24-Oct-19)	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Drawing power (DP) computation	1. Margin on stock and book debts 25% on stock and book debts upto 120 days The credit facilities of the borrower shall be subject to review in the event of downgrade of internal/external rating of the borrower.
2. Unsecured loans subordination	Unsecured loans of Rs. 4.89 crore shall be subordinated to the bank's facilities during the tenure of facilities of the bank. Subordinating undertaking to be obtained from unsecured lenders prior to release of limits.
3. Additional Events of Default (EODs)	TOL/TNW exceed 1.75x and any breach of financial covenants
B. Non-financial covenants	
1. Inspection audit	The bank reserves the right to undertake inspection of the books and records, stock, book debts, plants, offices, mortgaged properties, any other securities by appointing an external agency or by its own personnel at a 24 hour notice. Stock and book debts audit may be undertaken at annual frequency.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	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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About CARE Ratings:
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