Quebec Petroleum Resources Limited

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	36.12 (Reduced from 36.50)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating assigned to bank facilities of Quebec Petroleum Resources Limited (QRPL) continues to derive strength from experienced promoter group and diversified product profile having wide applications across multiple end-user industries. The rating further continues to derive strength from the exclusive rights for manufacturing and distribution of lubricants under the brand name of 'Motorol' in India, its wide distribution network and comfortable capital structure.

However, the rating continues to remain constrained considering its moderate scale of operations and thin profit margins with susceptibility to volatility in crude oil prices. Furthermore, the rating continues to be constrained due to moderate debt coverage indicators, working capital intensive operations and highly competitive pressure from large-sized established players in the lubrication industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in revenue marked by total operating income (TOI) of over ₹350 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of exceeding 3% on a sustained basis.
- Improvement in the capital structure marked by overall gearing reaching below 0.50x on a sustained basis.
- Improvement in the debt coverage indicators marked by interest coverage exceeding 3.5x on a sustained basis.

Negative factors

- Significant decrease in scale of operations marked by TOI falling below ₹200 crore with deterioration in PBILDT margin below 1.50% on a sustained basis.
- Deterioration in the debt coverage indicators marked by interest coverage to remain below 1.70x on a sustained basis.
- Deterioration in QPRL's capital structure marked by overall gearing of 1.25x on a sustained basis.
- Significant amount of debtor write-offs.

Analytical approach: Standalone

Outlook: Stable

The continuation of "Stable" outlook reflects CARE Ratings Limited (CARE Ratings) expectation of continuance of benefit from its experienced promoter group, exclusive rights for manufacturing and distribution of lubricants under the brand name of "Motorol' in India, which would enable company to sustain its moderate financial risk profile in the near-to-medium term.

Detailed description of key rating drivers:

Key strengths

Experienced promoters in petroleum products

Deepak Sadarangani and Dinesh Sadarangani have experience of nearly two decades in petroleum-products industry. QPRL's top management is assisted by a team of qualified and experienced professionals across functions, such as operations, marketing, and finance, among others

Diversified product profile and widespread distribution network

QPRL has an established track record of nearly two decades of operations as a manufacturer and trader of petroleum-based products. QPRL is engaged in manufacturing industrial, automotive and specialty lubricants and offers its product portfolio to companies across varied industries such as power, glass, paper, automotive, steel, chemical, and pharmaceuticals, among others. It supplies products (lubricants for automotive and industrial segment) through distributors with depots at Karnataka, Haryana, Kerala, UP and Mumbai, apart from its factory in Gujarat. The depot at Karnataka caters to the southern market in Tamil Nadu, Andhra Pradesh and Karnataka, the depot at Haryana caters to the northern market at Punjab and Haryana, widening its customer reach. The depot at Mumbai caters to bulk orders for industrial fuels. It also has warehouse facility at its factory premises. Over a period, QRPL established long-standing relations with its clients and its client portfolio remained well-diversified deriving ~24% of its total sales from top 10 customers in FY24.

Exclusive rights for use of 'Motorol' brand name
QPRL has the license from Oil Zone (UAE-based entity) to manufacture and market oils & lubricants under the brand name of 'Motorol' and has established technology to produce over 120 grades of lubricants in automotive, industrial and specialty segments. Its production line is equipped with the laboratory and blending units which are managed by team of professionals to ensure quality standards prescribed by Oil Zone. The owner of Oil Zone is a brother-in-law of Deepak Sadarangani.

Comfortable capital structure
The company's capital structure remained comfortable marked by overall gearing of 0.83x as on March 31, 2024, compared to 0.70x as on March 31, 2023. Slight deterioration was mainly account of increase in debt level due to higher utilisation of working capital limits as on balance sheet date and lower accretion of profits in the past.

Key weaknesses

Moderate scale of operations
QPRL's TOI remained almost stable to ₹246.59 crore in FY24 against ₹249.20 crore in FY23. The slight reduction in sales is due to decline in sales volume in trading division as sales from suppliers except IOCL is being gradually transferred to its group company Asai Petroleum. Contribution of trading division reduced to 24% of total sales in FY24 against 35% of total sales in FY23.This has been offset due to increase in revenue from manufacturing segment, which has increased to ₹187.58 crore in FY24 from ₹160.78 crore in FY23. In H1FY25, the company achieved net sales of ₹85.00 crore. The company's revenue is expected to slightly decline in the near term considering expected reduction in trading revenues with subdued performance in the manufacturing division.

Thin profitability margins with moderate debt coverage indicators
The company's PBILDT margin moderated to 1.79% in FY24 compared to 2.50% in FY23. The deterioration in its PBILDT margin is considering increase in the various costs in the year, including employee cost, selling and distribution cost etc. as the company is expanding in new geographies. Accordingly, profit after taxes (PAT) margin has also declined from 0.98% in FY23 to 0.53% in FY24 In line with the operating margin. In H1FY25, the PBILDT margin improved to 2.5%. Profit margins are expected to remain thin in the near-to-medium terms.

The company's debt coverage indicators deteriorated marked by total debt to gross cash accruals (TD/GCA) at 11.81x in FY24 compared to 7.58x in FY23, PBILDT interest coverage at 1.731 in FY23 compared to 2.31x in FY23**.** This deterioration is due to decrease in absolute PBLIDT in FY24 compared to FY23. Hence, the company's ability to efficiently manage its working limits and thereby improve its debt coverage indicators remains key monitorable.

Working capital intensive operations
The company's operating cycle is moderate, however, improved despite a decline in scale with lower trading portion. The working capital cycle improved to 68 days in FY24 against 71 days in FY23. This improvement is primarily led by a reduction in the collection period from 51 days in FY23 to 46 days in FY24. The inventory level stood at a similar level of 30 days in FY23 and FY24. However, it has been partially offset by decline in creditor period to seven days in FY24 compared to 10 days in FY23.

Susceptibility of profit margins to crude oil price movement
Base oil, the key raw material used in manufacturing QPRL's products, is a derivative of crude oil. Crude oil price is affected by factors such as global demand, global production, geo-political factors and government regulations, and hence, tend to remain highly volatile. However, price change due to raw material is passed on to customers (despite with a marginal delay with a lag of 2-3 months). Thus, the company's ability to improve its profitability margins amidst volatile input prices and forex fluctuations shall be critical from credit perspective.

Competition from large-sized established players in the lubrication industry
Lubrication industry is highly competitive with presence of large-sized established players in India. Automotive lubricant is the predominant segment in this industry. The industry is made up of over 35 established players and other unorganised players. Established players enjoy premium in realisation compared to unorganised players because of better brand visibility.

Liquidity: Adequate

The liquidity position remained adequate marked by sufficient cash accruals against repayment of ₹1.29 crore and ₹0.94 crore for FY25 and FY26. Its working capital requirements are met through cash credit facility of ₹35 crore, which is utilised at ~72% on an average for 12 months ended September 2024. Cash flow from operations stood negative at ₹3.43 crore in FY24 (against positive of ₹20.72 crore in FY23) due to negative working capital changes. The current ratio and quick ratio stood comfortable at 1.82x and 1.17x respectively as on March 31, 2024 (against 1.92x and 1.27x respectively as on March 31, 2023).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Energy	Oil, gas & consumable fuels	Petroleum products	Lubricants

QPRL is a closely held limited company based in Gujarat, owned and managed by Deepak Sadarangani and his family. QPRL manufactures ~120 grades of lubricants for automotive, industrial and specialty applications. These are manufactured under license and technology received from Oil Zone under the brand name "Motorol". The company has its manufacturing facility in Vadodara, Gujarat with an installed capacity of 2500 Kilolitre (KL) per month with capacity utilisation of 55-60%. QPRL is also engaged in trading Light diesel (LDO) and Furnace oil (FO) of Indian Oil Corporation Limited (IOCL) in Gujarat, Daman and Silvassa region.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	249.20	246.59	85.00
PBILDT	6.24	4.42	2.15
PAT	2.45	1.30	1.54
Overall gearing (times)	0.70	0.83	NA
Interest coverage (times)	2.31	1.73	1.68

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	28-02-2027	1.12	CARE BBB-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Jan-24)	1)CARE BBB-; Stable (28-Dec-22)	1)CARE BBB-; Stable (08-Mar-22)
2	Fund-based - LT-Term Loan	LT	1.12	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Jan-24)	1)CARE BBB-; Stable (28-Dec-22)	1)CARE BBB-; Stable (08-Mar-22)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Akhil Goyal Director **CARE Ratings Limited** Phone: 022-6754 3590 E-mail: akhil.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Ashish Kambli Associate Director **CARE Ratings Limited** Phone: 022-6754 3597 E-mail: Ashish.k@careedge.in Saurabh Darak Analyst **CARE Ratings Limited** E-mail: Saurabh.darak@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information, please visit www.careedge.in