

Gandhar Oil Refinery (India) Limited

January 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities – Non-fund based	899.50	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus)	Reaffirmed
Long Term Bank Facilities Fund based- Term Loan	25.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities – Fund based - CC	75.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Total facilities	1,000.00 (Rs. One Thousand Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Gandhar Oil Refinery India Limited (GORL) continues to factor in extensive experience of promoters coupled with long track record and well established position of the company in specialty oil/coal trading segment, established coal sourcing arrangement, diverse product portfolio catering to a wide range of end-user industry backed by broad customer base. The rating also continue to factor in the steady operating performance characterised by growth in revenues and stable profit margins in FY18 (refers to the period from April 01 to March 31) albeit moderation in operating performance in 8MFY19.

However, the rating strengths continue to be tempered by working capital intensive nature of operations resulting into leveraged capital structure, project execution risks, significant competition from both domestic and global players and profit margins susceptible to volatility in the prices of key raw materials and foreign exchange fluctuations.

Going forward, GORL's ability to garner the expected revenues and profit margins along with improvement in capital structure as envisaged amidst increasingly competitive environment and volatile input prices/ forex fluctuations while effectively managing its working capital cycle shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of promoters and long track record of operations in specialty oil and coal trading segment

Incorporated in 1992, GORL is led by Mr. Ramesh B. Parekh, Chairman who has nearly three decades of experience in industrial and specialty oils. GORL has well established track record of operating of over two and a half decades in the manufacturing of petroleum products. 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.

Established coal sourcing arrangement

GORL has developed strong relationship with miners in Indonesia and South Africa for procurement of imported coal. GORL has a practice of not entering into long term coal sourcing contract as the prices of coal remain volatile and it does not have any corresponding 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.

Diverse product portfolio catering to established and diversified clientele base

In FY18, GORL has derived around 57% of its gross revenues from coal trading and remaining 43% is derived from its petroleum segment. In the petroleum segment, GORL manufactures variety of petroleum products such as Industrial/Automotive Lubricants, Mineral Oils, Transformer Oils, Petroleum Jelly & variety of Specialty Lubricants. The company offers its product range to renowned companies across varied industries such as power, automotive, rubber, cosmetics, steel, chemical and pharmaceutical, etc. In the coal segment, GORL sells it locally to consumer industries across the country like refineries, paper mills, metals & alloys, cement Industries, power, etc. Such diversification enables the company to mitigate the risk from any untoward demand scenario in a particular industry to an extent.

Steady operating performance in FY18; albeit moderation in 8MFY19

The company has exhibited growth in revenues by 17% on a y-o-y basis in FY18. The revenue growth was aided by higher prices for its products as a result of higher input prices which were passed on to its customers along with slender volume

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

growth. Besides, the PBILDT margins remained stable at 5.38% in FY18 as compared to 5.65% in FY17. During 8MFY19, the company achieved steady revenues of around Rs.1,867 crore; albeit reported moderation in operating margins owing to forex loss reported due to volatility in the US dollar vis a vis Indian rupee exchange rate in the past few months.

Moderate liquidity Position

GORL's utilisation of fund based bank facilities remained moderate at around 41% for the last twelve months. This also exhibits that the company has unutilised lines of credit giving ample cushion to manage its operations in case of exigency

Key Rating Weaknesses

Risk associated with volatility in raw material prices

The company is exposed to the risks associated with cyclical nature of the business. The key raw material, base oil, which is a petroleum derivative, is exposed to price fluctuations of crude oil. Further, the company does not enter into any long term contracts for procurement of base oil with its suppliers. This exposes the company to raw material price risk and inventory management remains crucial for sustained profitability of the company. In case of coal trading segment, the company procures imported coal mainly from Indonesia and South Africa through its long standing relationship with its suppliers and the prices are mainly linked with the International Coal Price Indexes.

Profit margins susceptible to fluctuations in currency exchange rate

The company is a net importer and has around 25% natural hedge by its exports. However remaining 75% is kept open initially and it is hedged a month before the payment is due.

Hence, profitability of GORL is exposed to the fluctuation in the currency exchange rate.

Thus, ability of the company to sustain profitability margins amidst forex fluctuations shall remain key rating sensitivity.

Working capital intensive operations marked by high overall gearing ratio

GORL relies heavily on external borrowings largely in the form of non-fund based limits resulting into high gearing levels. The overall gearing of GORL deteriorated to 2.28x as on March 31, 2018 from 1.98x as on March 31, 2017; on account of higher acceptances. However gearing levels as on Nov 30, 2018, improved to 1.83x, yet remain on higher side. Average non-fund based utilization remained at 78% while the average working capital cycle improved to 55 days, this was primarily on account of higher credit availed from its suppliers.

Project execution risks

GORL has planned to undertake capacity expansion of its petroleum manufacturing division and estimated total project cost is Rs 33.00 crore. This expansion project is estimated to add capacities of 50,000 KL and it is expected to be completed by the end of FY20.

Nevertheless, given the fact that this expansion is in the same line of business and GORL has undertaken such expansions in the past, the project execution risk stands at lower level.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook 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](#)

About the Company

Gandhar Oil Refinery India Limited (GORL) was incorporated in 1992 by Mr. Ramesh B Parekh, Chairman & Managing Director of the company. The company is into manufacturing of petroleum products and trading of coal started in 2011. 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)	FY17 (A)	FY18 (A)
Total operating income	1,969.12	2,369.78
PBILDT	111.23	127.57
PAT	48.62	49.83
Overall gearing (times)	1.98	2.28
Interest coverage (times)	3.72	2.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. 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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Annexure-1: Details of Instruments/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	-	-	-	75.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	899.50	CARE BBB+; Stable / CARE A3+
Term Loan-Long Term	-	-	April -2020	25.50	CARE BBB+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	75.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Oct-17)	1)CARE BBB; Stable (18-Jan-17)	1)CARE BBB (17-Nov-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	899.50	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (24-Oct-17)	1)CARE BBB; Stable / CARE A3 (18-Jan-17)	1)CARE BBB / CARE A3 (17-Nov-15)
3.	Term Loan-Long Term	LT	25.50	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Oct-17)	-	-

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