Gandhar Oil Refinery (India) Limited

February 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities Fund-based - Term loan	32.00 (enhanced from 25.50)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities Fund-based – Cash Credit	75.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities – Non-fund Based	893.00 (reduced from 899.50)	**CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**	**Reaffirmed**
Total	**1000.00 (Rupees One Thousand crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gandhar Oil Refinery (India) Limited (GORL) continue to factor in wide experience of promoters and established position of the company in specialty oils and other manufacturing products, its diverse product portfolio catering to well established and diversified clientele base as well as established coal sourcing arrangement for its coal trading segment. The ratings also take into account sharp increase in scale of operations in FY19; though moderated in 9MFY20 owing to conscious decision taken by the company to reduce the trading operations.

The ratings are, however constrained by deterioration in profitability margins owing to uneven expenses incurred during FY19; margins have though improved in 9MFY20. The profitability margins are still low as compared to margins generated during past years. The ratings are also constrained by moderate financial risk profile of the company, forex fluctuation risk and risk associated with volatility in prices of coal as well as base oil and its operations being working capital intensive.

Rating Sensitivities:

Positive factors:

- Increase in PBILDT margin above 5% on a sustained basis contributed by higher share of revenue from manufacturing of petroleum products.
- Improvement in overall gearing below 1.50x on a sustained basis.

Negative factors:

- Substantial decline in scale of operations on a sustained basis resulting in reduced cash accruals.
- Deterioration in overall gearing beyond 2.50x on a sustained basis.

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% which has further increased to 106% in H1FY20.

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

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

to shield its revenue growth from any untoward demand scenario in a particular industry to a large extent. Petroleum products contributed 40% and trading of non-coking coal 60% to the total revenue in FY19.

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.

Sharp increase in scale of operations in FY19; though moderated in 9MFY20

The total income from operations in FY19 registered high growth of 31% i.e. scale of operations (consolidated) increased from Rs.2,737 crore in FY18 to Rs.3,577 crore in FY19. On a standalone basis, the total revenue from operations increased from Rs.2,370 crore in FY18 to Rs.3,057 crore i.e. the increase in growth was 29%. The increase was majorly on account higher sales of non-coking coal. The other reason being increase in sales quantity of petroleum products, which grew from 2,02,123 MT to 2,15,462 MT owing to higher and repeat orders from its customers.
During 9MFY20, the total revenue generated is Rs.1,878 crore. The moderation is majorly due to no new/ higher orders for supply of coal as well as conscious decision of the company to restrict coal sales to 50% of the total sales.

Key Rating Weaknesses

Deterioration in profitability margins in FY19 owing to uneven expenses incurred/ recorded; though improved in 9MFY20 but still remain low

For the past three years, PBILDT margin of the company has been around 5%. Around 90% of the total cost is cost of goods manufactured/ cost of traded goods of the total sales price. During FY19, PBILDT margin (standalone) deteriorated to 2.98% from 5.38% in FY18. During FY19, the company had incurred/ recorded few uneven expenses as well as extraordinary expenses such as bad debts of Rs.38 crore owing to sales in made in FY15, forex expense/ loss of Rs.56 crore and expense of Rs.16 crore towards clean energy cess. These major expenses have led to deterioration in margins of the company.
However, during 9MFY20, the profitability margins have shown improvement. PBILDT and PAT margins improved to 3.78% and 1.38% respectively. However, the margins are still low when compared to previous years.

Moderate financial risk profile

GORL has moderate financial risk profile marked by its high overall gearing (including LC backed creditors). Overall gearing (on a consolidated basis) slightly deteriorated to 1.98x as on March 31, 2019 as against 1.90x as on March 31, 2018. Interest coverage also deteriorated to 1.68x during FY19.
On standalone basis, overall gearing stood at 2.25x as on March 31, 2019 as against 2.18x as on March 31, 2018. This was due to higher acceptances and also due to guarantee given by GORL to its JV. However, with certain non-fund based facilities being backed by 100% margin money, the adjusted overall gearing stood at 1.98x as on March 31, 2019 (PY: 1.86x). Interest coverage stood at 2.02x as on during FY19.
During 9MFY20 (standalone), overall gearing slightly improved to 2.10x as on December 31, 2019. Interest coverage stood at 2.02x for 9MFY20.

Working capital intensive operations

GORL imports around 96% 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 client. 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 for past 12 months stood moderate at 42% whereas non-fund based stood at around 80%. The non-fund based is higher majorly due to higher utilisation of LC limits for import of goods.

Prospects:

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. Additionally, the company is also engaged in trading of 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. However, ability of the company to enhance profitability margins and reduce trading income going ahead shall remain critical and hence key monitor able.
Going forward, with GORL incurring capex for expansion of capacity in Taloja Plant, term debt is expected to increase. However, with improvement in profitability, net worth of the company will also improve, which in turn will keep overall gearing in control.

Liquidity: Adequate – GORL has working capital intensive operations. Its average fund-based utilisation for the past 12 months ending November 2019, stood at 41%. It has low repayment obligations when compared to accruals generated. Current ratio stands comfortable at 1.20x as on March 31, 2019.

Analytical Approach: The approach has been changed from 'Standalone' to 'Consolidated'. The change is mainly because 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; GORL has given corporate guarantee of Rs.85.10 crore for the bank facilities availed by this JV.

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

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.

(Rs. Crore)

Brief Financials (Consolidated)	FY18 (A)	FY19 (A)
Total operating income	2737.31	3577.25
PBILDT	136.89	81.32
PAT	64.43	18.70
Overall gearing (times)	1.90	1.98
Interest coverage (times)	2.96	1.68

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

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	-	-	-	75.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	893.00	CARE BBB+; Stable / CARE A3+
Term Loan-Long Term	-	-	Jan 2024	32.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Working Capital Limits	LT	75.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (21-Jan-19)	1)CARE BBB+; Stable (24-Oct-17)	1)CARE BBB; Stable (18-Jan-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	893.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (21-Jan-19)	1)CARE BBB+; Stable / CARE A3+ (24-Oct-17)	1)CARE BBB; Stable / CARE A3 (18-Jan-17)
3.	Term Loan-Long Term	LT	32.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (21-Jan-19)	1)CARE BBB+; Stable (24-Oct-17)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants TOL/ TNW<=4.0X Total debt/ EBITDA<=4.0x DSCR>2.0 Current ratio>1.20x Leverage to be maintained at 2.50x.	
B. Non-financial covenants	NA

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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