Gandhar Oil Refinery (India) Limited

October 24, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities- Fund-based- Term Loan	9.29	**CARE BBB+; Stable [Triple B plus; Outlook: Stable]**	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]
Long-term Bank Facilities- Fund-based- CC	75.00	**CARE BBB+; Stable [Triple B plus; Outlook: Stable]**	Revised from CARE BBB; Stable [Triple B; Outlook: Stable]
Long-term/Short-term Bank Facilities- Non-fund-based	691.50	**CARE BBB+; Stable/ CARE A3+ [Triple B plus; Outlook: Stable/A Three plus]**	Revised from CARE BBB; Stable/ CARE A3 [Triple B; Outlook: Stable/A Three]
Total Facilities	**775.79 (Rs. Seven Hundred and Seventy Five crore and Seventy Nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Gandhar Oil Refinery India Limited (GORL) factors growth in revenues coupled with improvement in profit margins leading to higher gross cash accruals and improvement in debt coverage indicators. Further, CARE Ratings takes note of the fact that the company is planning to have equity infusion through IPO in FY18 which is expected to result in improvement in credit risk profile of the company.

The rating further continues to derive strength from the vast experience of promoters coupled with long track record and well established position of the company in specialty oil and coal trading segment, Established coal sourcing arrangement, diverse product portfolio catering to a wide range of end-user segments and broad customer base.

However, the rating strengths are tempered by working capital intensive nature of operations marked by high overall gearing ratio, 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. The ratings are further tempered by the project execution risks associated with the capex plans to be funded by the proceeds of the proposed IPO.

The ability of the company to continue to increase its scale of operations, improve profit margins amidst increasingly competitive environment, volatile input prices/ forex fluctuations and improve its capital structure while effectively managing its working capital cycle would be the key rating sensitivities.

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

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

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

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 oil and coal trading business serving various end user industries and having presence across the length and breadth of the country. 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 is in coal trading business for more than two and half decades and 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 lead to timely and assured delivery of imported coal for the past many years.

Diverse product portfolio catering to established and diversified clientele base

The company derives around 52% of its gross revenues from coal trading and remaining 48% 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.

Growth in revenues coupled with improvement in profit margins leading to higher GCA in FY17

The company has exhibited growth in revenues by 27.55% on a y-o-y basis in FY17 largely owing to increase in coal trading business. Besides, the PBILDT margins also improved from 4.85% in FY16 to 5.70% in FY17 mainly on account of forex gain of Rs.8.86 crore as compared to loss of Rs.5.53 crore in FY16. Further, the PAT margins also improved owing to lower interest costs as a result of lower forex losses of Rs.1.29 crore as compared to loss of Rs.18.73 crore. During FY17, the company has adopted prudent hedging practices leading to better forex management. This has actually resulted in higher gross cash accruals for the company in FY17 as compared to FY16. Besides, Interest coverage ratio has also improved from 1.61x in FY16 to 3.76x in FY17 and total debt to GCA improved from 18.83x in FY16 to 9.55x in FY17 respectively.

Key Rating Weaknesses

Risk associated with volatility in base oil and coal prices along with exchange rate fluctuations

The company is exposed to the risk associated with cyclical nature of the business. The key raw material, base oil (91% of the total raw material cost in FY17), 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. Out of total imported coal, 80%-90% coal has order backed trading contracts and balance 10% is supplied on cash & carry basis. Thus, although most of the coal trading is order backed, still it is exposed to the variation in imported coal prices.

The company is a net importer and hedges around 70% of the forex exposure. Out of this around 30% is through natural hedge and balance is by way of forward contracts. Thus, ability of the company to sustain profitability margins amidst volatile input prices and forex fluctuations shall remain key sensitivity.

The company also faces competition from larger sized players in the same business having a wider product portfolio while the competition from imports is very limited. The company extends higher credit period and offers discounts to its customers so as to stave of competition to an extent.

Working capital intensive operations marked by high overall gearing ratio

The operation of the company is working capital intensive in nature as the company is into manufacturing of petroleum products as well as trading of coal which is largely a commoditized business. The company derives around 89% of its raw material requirement by way of imports and remaining it procures from the domestic market. GORL procures base oil from domestic refineries on spot payment and avails quantity discounts. For imports, the company opens usance LCs which is usually financed by buyer's credit. Besides, the company extends an average credit period of around 100 days (in case of coal customers, i.e. BORL 70 days and others 120 days) for local customers and around 60-70 days for export customers in order sustain amidst intense competition. The company also maintains stock of around 30-45 days. Hence this along with increase in trading volume and higher commodity prices the company relies heavily on external borrowings for the working capital requirements resulting into high gearing levels at 2.13x as on March 31, 2017.

Project execution risks
Going forward, GORL has no significant debt funded capital expenditure; however the company has indicated that it plans to execute capex of Rs.93.00 crore (Rs.58.00 crore towards expansion and modernization of the company's existing manufacturing facilities and Rs.35.00 crore towards its share of investment in the manufacturing plant it proposes to set up in Dubai in a 50:50 JV with a business partner). All these capex programs are scheduled to be completed by FY19 and would be funded through IPO proceeds. Hence, the timely and successful completion of IPO is crucial for execution of such projects. Further, any change in the funding pattern of capex leading to deterioration in gearing levels is a key rating monitorable

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.).The manufacturing units both put together have a total installed capacity of 1.94 Lakh MT (PY: 1.87 Lakh MT) as on March 31, 2017 and 2.32 Lakh MT as on July 31, 2017 (two-shift basis). 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. Exports accounted for about 29% of the net sales for FY17 and remaining 71% was sold in the domestic market. 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)	FY16 (A)	FY17 (A)
Total operating income	1,546.68	1,972.78
PBILDT	75.02	112.38
PAT	13.96	48.94
Overall gearing (times)	2.16	2.13
Interest coverage (times)	1.61	3.76

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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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	-	-	-	691.50	CARE BBB+; Stable / CARE A3+
Term Loan-Long Term	-	-	April-2020	9.29	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Working Capital Limits	LT	75.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (18-Jan-17)	1)CARE BBB (17-Nov-15)	1)CARE BBB (10-Feb-15) 2)CARE BBB (24-Nov-14) 3)CARE BBB (16-Apr-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	691.50	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3 (18-Jan-17)	1)CARE BBB / CARE A3 (17-Nov-15)	1)CARE BBB / CARE A3 (10-Feb-15) 2)CARE BBB / CARE A3 (24-Nov-14) 3)CARE BBB / CARE A3 (16-Apr-14)
3.	Term Loan-Long Term	LT	9.29	CARE BBB+; Stable	-	1)CARE BBB; Stable (18-Jan-17)	1)CARE BBB (17-Nov-15)	1)CARE BBB (10-Feb-15) 2)CARE BBB (24-Nov-14) 3)CARE BBB (16-Apr-14)

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CIN - L67190MH1993PLC071691