Gandhar Oil Refinery India Limited (Revise)

January 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities- Fund-based- Term Loan	24.50 (enhanced from 18.50)	CARE BBB: Stable [Triple B; Outlook: Stable]	Reaffirmed
Long-term Bank Facilities- Fund-based- CC	75.00	CARE BBB: Stable [Triple B; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities- Non-fund-based	691.50 (enhanced from 621.50)	CARE BBB: Stable/ CARE A3 [Triple B; Outlook: Stable / A Three]	Reaffirmed
Total Facilities	**791.00 (Rupees Seven Hundred and Ninety One Crore only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Gandhar Oil Refinery India Limited (GORL) continue to favourably factor in wide experience of the promoters and established position in specialty oil, diverse product portfolio catering to a wide range of end-user segments, strong customer base, improvement in PBILDT margin in FY16 (refers to the period April 1 to March 31); (albeit decline in total operating income in FY16), and moderate working capital utilisation. However, the rating strengths are partially offset by working capital intensive nature of operations marked by high overall gearing ratio; albeit improvement in FY16, exposure to currency fluctuations, pricing pressures due to intense competition.
Ability of the company to improve capital structure, improve profitability margins amidst volatile input prices and forex fluctuations, while maintining scale of operations; and prudent working capital management are the key rating sensitivities.
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 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 coal started in 2011, which accounted for 50% of net sales in FY16. The PBILDT margin of GORL improved to 4.85% in FY16 (PY: 3.73%) lead by lower selling expenses, however the PBILDT margin in H1FY17 declined to 4.54% (PY:4.83%) lead by fluctuation in crude oil & coal prices. The total operating income of GORL showed decline of 29.9% on a Y-o-Y basis in FY16 led by sales of both coal trading and petroleum product sales (*manufactured*). However, the volume of manufacturing (petroleum) sales continued to show a strong growth registering a Y-o-Y growth of 18.95% in FY16 as against a volume growth of 13.43% in FY15.

The overall gearing of GORL improved from 2.53x as on March 31, 2015 to 2.02x as on March 31, 2016, primarily led by reduction in buyer's credit, which decreased from Rs.365.36 crore as on March 31, 2015 to Rs.190.07 crore as on March 31, 2016, on account of reduced sale of coal in FY16. However, the gearing continued to remain high.

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

GORL's business is a working capital intensive in nature. During FY16, the average working capital cycle deteriorated to 80 days as against 60 days in FY15, primarily on account of increase in collection period and inventory days. The average collection days increased to 97 days in FY16 from 69 days in FY15. While the average inventory days increased to 61 days from 41 days in FY15 and the average creditor days also increased to 79 days in FY16 from 50 days in FY15. However, the working capital cycle based on year end figures showed a marginal increase of 8 days to 72 days as on March 31, 2016.

The company is exposed to the risk associated with cyclical nature of the business. The key raw material, base oil (94% of the total raw material cost in FY16), which is a petroleum derivative, is exposed to price fluctuations of crude oil. Coal segment in FY16 was largely impacted and there was a dip in prices of coal, resulting in inventory loss.

The company hedges about 70% of its exposure by way of forward contracts and for the balance 30% is through is natural hedge. The foreign exchange loss during FY16 was to the tune of Rs.24.27 crore as against a loss of Rs.24.83 crore in FY15. Which includes loss of Rs.18.74 crore (PY: Rs.18.14 crore) on account of foreign currency debt and exchange loss of Rs.5.54 crore on raw material (PY: Rs.6.69 crore).

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 face competition.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology - Wholesale Trading

Company Background

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 (~50% of net sales in FY16) and trading of coal started in 2011 (~50% of net sales in FY16). GORL has two manufacturing units one each at MIDC Taloja, Maharashtra and Silvassa (U.T.).The manufacturing units both put together had a total installed capacity of 1.77 Lakh MT as on March 31, 2016 (PY: 1.61 Lakh MT) (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 and the exports accounted for about 27% of the net sales for FY16 balance 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. The company is ISO 9001:2008 certified and FDA approved for manufacturing Pharmaceutical Grade Mineral Oils & Petrolatum's. The Company is also been recognized as an Export House by the GOI & exports to various parts of the World like South America, Middle East, Africa, Europe, Far East, Australia, etc. The revenue from exports was at Rs.414 crore (about 27% of total sales in FY16). GORL's laboratory is designated as an R&D Centre by Govt. of India. GORL has three subsidiaries namely Gandhar Shipping and logistic Private Limited, Gandhar Global Singapore PTE Ltd and Gandhar Oil and Energy ltd. GORL has given guarantee to the lenders of Gandhar Global Singapore PTE Ltd amounting to Rs.15.26 crore as on March 31, 2016.
GORL reported a PAT of Rs.13.96 crore on a total operating income of Rs.1546.68 crore in FY16 as against a PAT of Rs.18.99 crore and total operating income of Rs.2207.66 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Rating History (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- Term Loan	-	-	April 2020	24.50	CARE BBB; Stable
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

Annexure 2

Rating History for last three years :-

		Current Ratings			Chronology of Rating history for past three years		
Sr. No.	**Name of the Instrument/Bank Facilities**	**Type**	**Amount Outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2015-2016**	**Date(s) & Rating(s) assigned in 2014-2015**	**Date(s) & Rating(s) assigned in 2013-2014**
1	Fund-based - LT-Term Loan	LT	24.50	CARE BBB; Stable	1)CARE BBB (November 17, 2015)	1)CARE BBB (February 10, 2015) 2)CARE BBB (November 24, 2014) 3)CARE BBB (April 16, 2014)	
2.	Fund-based - LT-Working Capital Limits	LT	75.00	CARE BBB; Stable	1)CARE BBB (November 17, 2015)	1)CARE BBB (February 10, 2015) 2)CARE BBB (November 24, 2014) 3)CARE BBB (April 16, 2014)	
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	691.50	CARE BBB; Stable / CARE A3	1)CARE BBB / CARE A3 (November 17, 2015)	1)CARE BBB / CARE A3 (February 10, 2015) 2)CARE BBB / CARE A3 (November 24, 2014) 3)CARE BBB / CARE A3 (April 16, 2014)	

CARE Ratings
Professional Risk Opinion

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