Gulf Oil Lubricants India Limited

February 13, 2017

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Remarks**
Long-term Bank Facilities (Term Loan)	50	CARE AA-;Stable (Double A Minus: Outlook; Stable)	Reaffirmed
Total Facilities	**50 (Rupees Fifty crore only)**		

Details of facilities in Annexure-1

Detailed Rationale

The reaffirmation of the rating to the bank facilities of Gulf Oil Lubricants India Limited (GOLIL) takes into account strong parentage and their established track record in lubricant business. The rating also considers the company's segment-wise focus driven by product innovation and brand recognition, expansion plans along with strong distribution network. Furthermore, the rating also takes into account consistent growth in revenues with healthy profitability margins, comfortable capital structure, strong debt coverage indicators coupled with moderate working capital cycle and liquidity profile.

However, the rating strengths are constrained by contingent liability arising out of guarantee to associate company, profitability of the company susceptible to raw material price volatility and forex movement, intense competition from other players and risk associated with new project.

Going forward, the ability of the company to increase its scale of operation along with improvement in profit margins, capital structure and working capital cycle are the key rating sensitivities.

Detailed description of the key rating drivers

GOLIL, part of Hinduja Group, is an established player in Indian lubricant market. The company commenced its operations as a demerged entity of lubricant business of Gulf Oil Corporation Ltd (GOCL) w.e.f April 1, 2014.

Presently, the Gulf brand is present in more than 100 countries across five continents, via an elaborate network of distributors, joint ventures and wholly-owned operations. GOI has extensive range of products that is made available through global network of blending facilities in Asia, Europe, Central and South America. The company derives almost 62% to 67% of volume from Bazaar segment (B2C) and remaining 33% to 38% from B2B segment.

The company has 90,000 KLPA (kilo litre per annum) manufacturing capacity at Silvassa. With capital outlay of Rs.160 crore, the company plans to set a Greenfield project in Chennai of 50,000 KLPA capacity to increase manufacturing capacity and also freight saving cater Southern and Eastern states of India.

During FY16 (refers to the period April 1 to March 31), total operating income grew 5.26% YoY to Rs.1,028.07 crore from Rs.976.67 crore in FY15 due to increased volumes. During FY16, sales volume increased 10.31% YoY to 75,000 KL from 68,000 KL in FY15. The PBILDT margin have improved to 17.23% in FY16 from 14.20% in FY15 mainly due to increase volumes and reduction in raw material cost, since the realization per unit have reduced from Rs.141.33 in FY15 to Rs.133.86 in FY16.

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

Overall gearing of GOLIL stood comfortable at 0.85x as on March 31, 2016, as against 1.16x as on March 31, 2015. The company's debt profile comprises primarily of working capital borrowings. The interest coverage ratio stood healthy at 9.96x in FY16 as compared with 7.81x in FY15. Furthermore, the total debt/GCA stood comfortable at 1.82x in FY16 as compared with 2.52x in FY15 on account of strong profit accruals.

Operating cycle of GOLIL stood moderate at 68 days in FY16 as compared with 77 days in FY15. The average working capital utilisation for GOLIL for the past 12 months ended November 2016 was moderate at 49.76%.

GOLIL has given a guarantee to the lenders of the associate company to part finance the acquisition of Houghton International Inc. at USD 300 million of which USD 177 million is outstanding as on March 31, 2016. However, the company has received back to back corporate guarantee from Gulf Oil International Limited, Cayman to secure its entire obligations, if any, arising out of the said Deed of Undertaking, but the loans are also secured by specified assets of GOLIL.

The price of base oil, the key raw material used in the manufacturing of GOLIL's products is a derivative of crude oil and it largely depicts the price volatility of crude oil. Also, the company is susceptible to foreign exchange fluctuation risk.

There is an intense competition from other players in the lubricant market; however, GOLIL is one of the major private players. Lubricant market in India is primarily dominated by PSU companies followed by Castrol India – private player.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

Background
Gulf Oil Lubricants India Limited (GOLIL), part of Hinduja Group, is an established player in Indian lubricant market. The company commenced its operations as a demerged entity of lubricant business of Gulf Oil Corporation Ltd (GOCL) w.e.f April 1, 2014. The Board of Directors of GOCL had approved the Scheme of Arrangement for demerger of lubricant business of the company in August 2013, and same was transferred to Hinduja Infrastructure Ltd, which was later named as GOLIL.
GOLIL is engaged in manufacturing, trading and marketing a wide range of automotive and industrial lubricants, greases, 2-wheeler batteries, etc. The company sells its lubricant products under the "Gulf" brand. Presently, the Gulf brand is present in more than 100 countries across five continents. The company has 90,000 KLPA (kilo litre per annum) manufacturing capacity at Silvassa. With capital outlay of Rs.160 crore, the company plans to set a Greenfield project in Chennai of 50,000 KLPA capacity to cater Southern and Eastern states of India.
During FY16, GOLIL reported a net profit of Rs.100.31 crore (Rs. 77.41 crore in FY15) on a total operating income of Rs. 1028.07 crore (Rs.976.67 crore in FY15). During H1FY17, the company reported PAT of Rs.61.38 crore (Rs.44.09 crore in H1FY16) on a total operating income of Rs. 557.81 crore (Rs.479.22 crore in H1FY16).

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.*

Analyst Contact
Name: Mr Ravi Kumar
Tel: 022-67543421
Cell: 9004607603
Email: ravi.kumar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 (Proposed)	-	-	-	50.00	CARE AA-; 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 2016-2017	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	50.00	CARE AA-; Stable	1)CARE AA- (03-May-16)	-	-	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691