Gulf Oil Lubricants India Limited

March 22, 2018

Rating

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Remarks**
Long term Bank Facilities	50.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Total	50.00 (Rupees Fifty Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in rating assigned to the bank facilities of Gulf Oil Lubricants India Limited (GOLIL) takes into account its consistent growth in revenues and profitability and improvement in debt coverage ratios on the back of timely price revisions, improving market share and tie-ups with reputed OEMs and strong recognition of its 'Gulf' brand and successful completion of greenfield lubricant unit of 40,000 KL at Chennai.

The ratings continue to derive strength from its strong parentage, its established track record in the lubricant business, the company's segment-wise focus driven by product innovation and strong distribution network. The rating takes cognizance of healthy profitability margins and strong financial risk profile.

The aforementioned strengths are partially tempered by contingent liability arising out of guarantee to associate company, profitability being susceptible to raw material price volatility and forex movement and intense competition in domestic lubricants industry.

Ability of the company to optimize capacity utilization at its Chennai plant, adequately increase prices to offset increase in raw material prices amidst intense competition as well as improve its market share is the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and their established track record in lubricant business: GOLIL is a part of The Hinduja Group which acquired the 'Gulf' brand from Chevron in the late 1980s and owns the rights to the brand in over a 100 countries, via an elaborate network of distributors, joint ventures and wholly owned operations. Gulf Oil International (GOI) has an extensive range of products that is made available through global network of blending facilities in Asia, Europe, Central and South America. GOI's core business is manufacturing and marketing an extensive range of products consisting of over 400 performance lubricants and associated products for all market segments globally. Hence, the company is benefited from the expertise of group.

Presently, GOLIL is being managed by Mr. Ravi S Chawla, Managing Director who has 24 years of professional experience in sales and marketing across diverse sectors. He has extensive 15 years of experience in lubricants space.

Segment wise focus driven by product innovation and brand recognition: GOLIL derives almost 60% to 65% of revenue from automotive segment and remaining from industrial (B2B) segment. In the automotive segment, the main focus is towards the commercial vehicle segment with increasing portfolio of lubricants for two wheelers, tractors and passenger car segment, through launch of new products. Over the years the company has gained expertise in the manufacturing of long drain engine oils and has been continuously increasing the period required for replacement of the same.

Also, in order to strengthen presence in rural market, the company has launched the Gulf Rural Stockist (GRS) Programme which will be used to promote Gulf tractor and motorcycle engine oils. Further, the company is also focusing towards brand re-call by increasing focus towards marketing campaigns strategically targeting the millennial youth.

Strong distribution network: GOLIL has an extensive distribution network comprising of over 335 distributors, over 55,000 retailers, 10 state transport undertakings over 50 industrial distributors and over 200 direct industries. In the automotive segment, the company operates through the OEM network (B2B which is factory fill segment; having tie-ups

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

with Ashok Leyland, Mahindra Rise, BaratBenz, Bajaj, Volvo Penta, Swaraj, Schwing Stetter, Toshiba, Whitmore and Mahindra Gujarat Tractor Limited) and Bazaar trade (B2C) segment. The majority of the trade in the automotive segment is through the Bazaar segment (almost 60% of the total automotive segment) wherein the company caters to the retail segment (replacement market) including mechanics, spare parts shops and workshops. In the OEM space it has tie-ups with Ashok Leyland, Bharat Benz, Volvo and Mahindra Rise (commercial vehicle). In addition the company also has tie-ups with other OEM players including Mahindra Gujarat Tractor Limited and SWARAJ in the tractor segment and Schwing Stetter (concrete construction equipment) and WHITMORE (specialized greases for mining application) in the industrial segment. The company has tied up with Bajaj for its two-wheeler lubricant segments and KOBELCO for its construction machinery.

Consistent growth in revenues with healthy profitability margins: Through a range of customized brand promotion campaigns focusing the millennial youth, new tie-up with Bajaj Auto, strong relationship with Ashok Leyland and introducing reward based loyalty programs for its trade partners, GOLIL achieved a double digit growth in volumes (11% y-o-y growth to 84,000 KL in FY17 from 75,000 KL in FY16) during FY17 with its total operating income growing 12% Y-o-Y. GOLIL recorded a 22% total volume growth in 9MFY18 (vis-à-vis 9MFY17) and highest ever volume sales during Q3FY18 with strong growth in all segments including Diesel Engine Oils segment (which contributes nearly 40% of its total production) despite GST rollout, leading to total revenue of Rs.1024.14 crore in 9MFY18 (vis-à-vis Rs.941.11 crore in 9MFY17).
With growing volumes, its PBILDT margin continued to remain healthy and recorded a 31 bps y-o-y growth in FY17 to 17.54% in FY17 (vis-à-vis 17.23% in FY16). PBILDT margin further improved to 18.73% in 9MFY18 (vis-à-vis 15.53% in 9MFY17).

Strong financial risk profile: GOLIL's capital structure remained comfortable with company having only working capital borrowings and no long term loans. Capital structure further improved with accretion of profits to reserves. Its overall gearing stood comfortable at 0.51x as on March 31, 2017 as against 0.79x as on March 31, 2016. Moreover, the company has a total free cash of Rs.272.41 crore held in current account and fixed deposits as against the total debt outstanding of Rs.178.49 crore as on March 31, 2017. Furthermore, improved profitability and reduction in interest expenses on foreign currency borrowings led to improvement in interest coverage ratio (20.77x in FY17 vis-à-vis 9.96x in FY16) and total debt/GCA (1.38x as on March 31, 2017 vis-à-vis 1.82x as on March 31, 2016). Interest coverage further improved to 33.25x during 9MFY18 (vis-à-vis 17.85x during 9MFY17).

Key Rating Weaknesses

Contingent liability arising out of guarantee given to associate company: 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 88 million is outstanding as on December 31, 2017. 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

Intense competition from other players: The lubricant market in India is primarily dominated by PSU companies followed by leading private player Castrol India. GOLIL has engaged in product innovation and strategically focused brand promotion, including tie-ups with major worldwide sporting organisations such as Manchester United Football Club, erstwhile IPL team Rising Pune Supergiant, now having tie up with IPL team Chennai Super Kings and long term association with brand Ambassador M.S. Dhoni. The aforementioned has helped the company to significantly increase its market share over a period of time making GOLIL a major private player in the lubricant market. Nonetheless, lubricant market is an extremely competitive and price sensitive business. All the major players in this business have long experience of the market with strong presence along the supplier network as well as the distribution network.

Susceptible to raw material price volatility and forex movement: 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. The price of crude oil is affected by factors like global demand, global production, geo-political factors and government regulations hence tend to remain highly volatile. After a decline to USD 32/barrel in FY16, FY17 saw the crude prices increasing again with a 3-year high of USD 64.02/barrel being reached in November 2017. While GOLIL is generally able to pass on the price changes to its customers, high volatility in prices results in deferred purchases by customers and can result in inventory losses. Furthermore, GOLIL is a net importer with expenditures in foreign currency comprising of imports (52% of total RM imports in FY17), royalty expenses and interest on foreign currency working capital borrowings forming a total foreign currency outflow of Rs.286.03 crore vis-à-vis inflow of Rs.13.05 crore in FY17. It enters into forward contracts to the extent of 60% of the total imports; hence, the company is susceptible to foreign exchange fluctuation risk and adverse fluctuation can affect GOLIL's profit margin going ahead.

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

About the Company
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, 2015. 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 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. It commissioned its 40,000 KLPA greenfield project at Ennore, Chennai in December 2017 to cater to the Southern and Eastern states of India. Gulf Oil International (Mauritius) Inc. is the main shareholder of the company with 72.88% shares as on December 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1028.07	1152.65
PBILDT	177.10	202.20
PAT	100.31	121.08
Overall gearing (times)	0.79	0.51
Interest coverage (times)	9.96	20.77

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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-Term Loan	-	-	-	34.38	CARE AA; Stable
Non-fund-based-Long Term	-	-	-	15.62	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 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-Term Loan	LT	34.38	CARE AA; Stable	-	1)CARE AA-; Stable (13-Feb-17) 2)CARE AA- (03-May-16)	-	-
2.	Non-fund-based-Long Term	LT	15.62	CARE AA; Stable	-	-	-	-

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