

October 10, 2022

Gulf Oil Lubricants India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	142.00	92.00	[ICRA]AA (Stable); reaffirmed
Short-term – Fund-based/Non-fund Based Limits	-	50.00	[ICRA]A1+; reaffirmed
Short-term Non-fund Based Limits	420.00	420.00	[ICRA]A1+; reaffirmed
Total	562.00	562.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Gulf Oil Lubricants India Limited (GOLIL, or the company) considers the company's strong financial profile, characterised by healthy profitability levels and return indicators and a comfortable capital structure. In FY2022, the company witnessed healthy revenue growth, driven by volume growth and higher realisation. While the OPM witnessed moderation due to the increase in raw material prices, the absolute profits witnessed healthy growth. The trend has continued in Q1 FY2023.

The ratings continue to consider the company's ability to maintain healthy profitability levels on the back of timely price revisions to partly mitigate the impact of base oil price movements. Another comforting factor is its improving market share in the domestic lubricants industry, driven by its strong marketing efforts, the well-recognised Gulf brand and a wide distribution network. The ratings also positively factor in the strong parentage of the company, being a part of the Hinduja Group.

The ratings are, however, constrained by the exposure of the company's profitability to the movements in base oil prices. Its profitability is also exposed to forex movements (to the extent of the unhedged exposure). The company's operations will continue to be exposed to the demand indicators from the automotive sector. The ratings also consider the high competitive pressures in the domestic market, which is largely dominated by Government-owned oil marketing companies (OMCs), apart from other established players in the private sector.

The Stable outlook on GOLIL's long-term rating reflects ICRA's expectation that the credit profile will continue to be healthy, aided by expected cash accruals supported by its established brand name and strong distribution network.

Key rating drivers and their description

Credit strengths

Strong parentage and well-recognised brand value - GOLIL is part of the transnational conglomerate, Hinduja Group, which is one of the largest diversified business groups. Further, the key promoter for the company, Gulf Oil International, is one of the fastest growing lubricant companies in the world, and currently operates across more than 100 countries. GOLIL sells its lubricant products under the Gulf brand, which is a well-recognised brand in the domestic market, strengthened by a growing distributor network and strong marketing campaigns.

Robust financial profile - The company's strong financial profile is characterised by healthy profitability levels. The company witnessed YOY revenue increase of ~32.6% in FY2022, driven by ~17% YoY increase in sales volumes during the fiscal. However, the company's operating margin moderated to 13.0% in FY2022 from 16.1% in FY2021 on account of higher input costs amid a sharp rise in base oil prices, whose impact was partially mitigated by the price increases undertaken by the company. Nonetheless, the OPBDITA increased by ~8% and net profits also increased by ~5%. The working capital intensity remained moderate in FY2022, with NWC/OI of 23.9%, and the debt coverage metrics also remained healthy. The return indicators are robust, supported by the stable profitability of the business.

Strong distribution network – GOLIL's lubricants sales are broadly bifurcated between the automotive segment and the industrial segment, of which majority are to the automotive segment. Within the automotive segment, the company's sales are distributed among diesel engine oils (which are used in trucks and tractors), motorcycle oils and passenger car oils. GOLIL has an extensive distribution network, comprising 300+ distributors and 75,000+ retail outlets, more than 8,000 bike stops and 2,000 car stops, over 50 industrial distributors and 200 direct industries.

Credit challenges

Exposed to demand indicators of the automotive sector – The growth in the lubricants industry remains highly linked to the demand outlook of the automotive sector, which is the key end-user industry. While the long-term outlook for the automotive sector remains strong, GOLIL's growth will continue to be linked to any intermittent demand fluctuations from the automotive segment.

Profitability exposed to movement in base oil prices and forex rates – Base oil is a crude oil product and thus its prices are volatile in nature. Hence, the profitability of the company is contingent upon its ability to pass on any fluctuations in input prices to its end-users. The company meets about 65-70% of its base oil requirement through imports. Moreover, owing to limited exports, it lacks any natural hedge against forex fluctuations. However, it follows a hedging policy as advised by forex consultants whereby it always keeps its exposures hedged by 80-85%.

High competitive intensity – The company remains exposed to the high competitive pressures in the domestic market, which is largely dominated by Government-owned OMCs, apart from other established players in the private sector.

Environmental and Social Risks

GOLIL is exposed to the risks arising from the tightening regulations on the environment and the safety front, which can have a potential bearing on the cost structure or lead to moderate capital outlay for mitigation and treatment. As per the disclosure made by the entity in the FY2022 annual report, it complies with all the environmental regulations and various statutory approvals/permits granted by the authorities. The Company has been certified for ISO14001:2015 for Environmental Management System and also Gold certified by Indian Green Building Council (for its Chennai Plant). It focuses on product innovation to improve fuel efficiency and reduce emissions through various initiatives. Advent of electric vehicles could impact certain segments of business partially in the long term. However, initiatives taken by the company to develop EV fluids, increase in sale of products like Gulf Adblue, which are used for reduction in hazardous emission in BS VI diesel vehicles and diversification into allied business areas will help mitigate the risk to an extent.

The industry may face changes in the worldwide societal trends towards a shift to less carbon-intensive sources of energy which could structurally reduce demand for some of the company's products. However, for emerging markets like India, such change in consumer behaviour or any other driver of change is expected to be relatively slow paced as India is quite under penetrated in terms of Vehicles. Therefore, while the company remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Liquidity position: Strong

GOLIL's liquidity position is strong with sizeable, unencumbered cash balances and liquid investments of ~Rs. 549 crore as on March 31, 2022. Further, the company has no long-term debt repayment obligations and has been generating healthy cash flow from operations. GOLIL also has adequate cushion available in the form of unutilised fund-based working capital limits.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a stable growth in volumes while maintaining healthy profitability and credit metrics.

Negative factors – Significant weakening in the profitability and/or de-growth in sales volumes due to continued slowdown in the automotive sector or volatility in crude oil prices or high competition in the industry may put negative pressure on ratings. Any stretch in working capital cycle or large debt-funded capex leading to weakening of its liquidity profile could also put downward pressure on the ratings. Specific credit metrics that could result in a rating downgrade include ROCE dropping below 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Gulf Oil Lubricants India Limited.

About the company

Gulf Oil Lubricants India Limited (GOLIL) is part of the transnational conglomerate Hinduja Group. GOLIL was formed by the demerger of the lubricants business of Gulf Oil Corporation Limited (GOCL) w.e.f. April 1, 2014. GOLIL sells its lubricants products under the Gulf brand with sales largely to the automotive sector along with industrial users. It has a manufacturing facility in Silvassa with an installed capacity of 90,000 KLPA (kilo litres per annum), which was augmented from 75,000 KLPA in FY2016. The company also commissioned a greenfield project in Chennai with a manufacturing capacity of 50,000 KLPA in December 2017. During FY2021-22, GOLIL commissioned AdBlue capacity of 18,000 KL at Chennai Plant, thereby taking the total capacity of AdBlue to 30,000 KL.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	1652.2	2191.6
PAT	200.1	211.1
OPBDIT/OI	16.1%	13.0%
PAT/OI	12.1%	9.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	0.7	1.3
Interest coverage (times)	18.1	29.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 10, 2022	Sep 07, 2021	Aug 28, 2020	Oct 28, 2019
1	Fund-based Limits	Long-term	92.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)
2	Fund Based/Non-Fund Based Limits	short term	50.00	-	[ICRA]A1+	-	-	-
3	Non-Fund Based Limits	short term	420.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based	Simple
Short -term Fund Based/Non-Fund Based Limits	Simple
Short -term Non-Fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No/Banker Name	Instrument Name*	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	NA	92.00	[ICRA]AA(Stable)
NA	Fund based limits/Non fund based limits	NA	NA	NA	50.00	[ICRA]A1+
NA	Non-Fund based limits	NA	NA	NA	420.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 5304

sabyasachi@icraindia.com

Prashant Vasisht

+91 124 4545 5322

prashant.vasisht@icraindia.com

Sai Krishna

+91 44 4596 4300

sai.krishna@icraindia.com

Kushal Shah

+91 79 4027 1527

kushal.shah@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.