Gulf Oil Lubricants India Limited

Instrument	Amount	Rating Action
Fund Based Limits	Rs. 77.00 crore	[ICRA]AA- (stable) *Upgraded from [ICRA]A+ (stable)*
Non-Fund Based Limits	Rs. 315.00 crore	[ICRA]A1+ *reaffirmed*

ICRA has upgraded the long-term rating from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus) and reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the fund based limits and non-fund based limits of Gulf Oil Lubricants India Limited (GOLIL) aggregating to Rs. 392.00 crore[1][2]. The outlook on the long-term rating is Stable.

The upgrade of the long-term rating takes into account the improving market share of GOLIL in the domestic lubricants industry, driven by its strong marketing efforts, well-recognised "Gulf" brand and wide distribution network. The company has posted higher-than-industry growth in its volume sales in the past two years (6% in FY2015 and 10% in FY2016) which would be further aided by the recovery being seen in the domestic automotive sector. The company is also setting up a greenfield lubricant oil manufacturing project in Chennai, which is likely to support its revenue growth over the long term and result in cost savings to meet customer requirements in southern region of India. The ratings also take into account the company's strong financial profile, characterised by healthy profitability levels, comfortable capital structure and strong liquidity profile. The company's profitability further improved in FY2016 on account of the decline in base oil prices, resulting in healthy increase in cash accruals as compared to the previous year. 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 movement in base oil prices which are volatile, and also the forex movements (to the extent of the unhedged exposure). The company's operations will continue to remain exposed to the demand indicators from the automotive sector that had been sluggish for the past few years. The ratings also take into account the high competitive pressures in the domestic market, which is largely dominated by the Government-owned oil marketing companies, apart from other established players in the private sector.

ICRA notes that the company has sizeable contingent liability, arising from the cash deficit undertaking provided to loans raised by a fellow subsidiary for overseas acquisition of Houghton International Inc (Houghton); however, ICRA has considered that the residual US$ 153 million loan (reduced from US$ 300 million loan availed of at the time of acquisition) which is secured by assets of primary borrowers and will be serviced from the surplus cash flows of Houghton and support from the promoter group, if required, with GOLIL not having material involvement. Nonetheless, any extension of financial support by GOLIL, owing to slippage in the envisaged cash flows from Houghton and its parent Gulf Oil International, will be a key rating sensitivity.

Company Profile

Gulf Oil Lubricants India Limited (GOLIL) is a part of the Hinduja Group. It commenced operations with the demerger of the lubricants business of GOCL Corporation Limited (GOCL), previously known as Gulf Oil Corporation Limited, w.e.f. April 1, 2014. GOLIL markets a wide range of automotive and industrial lubricants, greases, 2-wheeler batteries, etc. under the "Gulf" brand. It currently has a manufacturing facility at Silvassa with a capacity of 90,000 KLPA (kilo litres per annum). The company is also setting up a greenfield project in Chennai, at a project cost of about Rs. 150 crore, which is expected to be operational by September 2017 with manufacturing capacity of 40,000~50,000 KLPA.

For FY2016, GOLIL reported Profit after Tax (PAT) of Rs. 100.3 crore on an operating income of Rs. 1011.4 crore. For Q1 FY2017, GOLIL reported PAT of Rs. 31.2 crore on an operating income of Rs. 283.6 crore (unaudited).

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

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