March 15, 2017

GOCL Corporation Limited

Instrument*	Rated Amount	Rating Action
Non-Fund Based Limits	Rs. 85.00 crore	[ICRA]A3+ reaffirmed
Fund Based Limits	Rs. 20.00 crore	[ICRA]BBB (Stable) reaffirmed; outlook revised to Stable from Positive
Term Loans/LOC facility	USD 180 million	[ICRA]BBB (Stable) reaffirmed; outlook revised to Stable from Positive

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B)[1] and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) assigned to fund based limits and non-fund based limits aggregating to Rs 105.00 crore of GOCL Corporation Limited (GOCL). ICRA has also reaffirmed the long-term rating of [ICRA]BBB assigned to the USD 180 million[2] bank borrowing of GOCL's associate company, which has been used to part fund an overseas acquisition. The outlook on the long-term rating has been revised from Positive to Stable.

Rationale

The revision in the rating outlook takes into account the delays in the cash flows arising from the company's real estate assets, with the lease tie-ups for the on-going Bengaluru project yet to materialise. Further, the company's Hyderabad project has witnessed slowdown in its construction activities on account of the pending statutory approvals.

The reaffirmation of ratings takes into account the strong parentage of GOCL being a part of the Hinduja group and its established track record in the explosives and mining businesses. The ratings also positively consider the limited borrowing requirements of the company post the demerger of its lubricants business (w.e.f. April 1, 2014) which has resulted in a comfortable capital structure. The company's Energetics division has seen healthy order inflows from Coal India Ltd in recent years which would support revenue growth.

The ratings, however, remain constrained by the exposure of the company's operations to the domestic mining sector outlook which has faced a slowdown in recent years due to regulatory and environmental issues; moreover, there has been no addition of new orders in the past year. The ratings also remain constrained by the competition present in the explosives and mining businesses from other established players, which has led to shrinkage in the profitability levels of the Energetics division in recent quarters (PBIT of 7.5% for 9M FY2017). Nonetheless, ICRA notes the huge upside potential for the company from the Realty business once it ties up lease agreements for the Bengaluru project; the company expects the cash inflows to commence in FY2018.

ICRA notes that the company has sizeable contingent liabilities arising from corporate guarantee extended to bank lines of wholly-owned subsidiary IDL Explosives Ltd, group company Gulf Oil Lubricants India Ltd and cash deficit undertaking provided to loans raised by an associate company for

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million

overseas acquisition of Houghton International Inc (Houghton). ICRA has, however, factored in the healthy financial profile of Gulf Oil Lubricants India Limited ([ICRA]AA- (stable) / [ICRA]A1+) which reduces the possibility of the corporate guarantee being invoked. ICRA has also considered that the acquisition loan of USD 133 million outstanding (out of USD 300 million raised) will be serviced from the surplus cash flows of Houghton and guarantee from another group company, with GOCL not having material involvement. Nonetheless, any extension of financial support by GOCL owing to slippage in the envisaged cash flows from Houghton will be a key rating sensitivity.

Key rating drivers

Credit Strengths

- Strong parentage arising from being a part of the Hinduja Group
- Established track record in the explosives and mining business
- Healthy order book position for explosives in GOCL and wholly-owned subsidiary, IDL Explosives Limited
- Upside cash flow potential from the sizeable real estate assets of the company
- Comfortable capital structure owing to low borrowing requirements

Credit Weakness

- Operations exposed to the domestic mining sector outlook where regulatory and environmental issues in the past resulted in modest capacity utilisation levels for the company
- Despite increase in sales volumes for the Energetics business, the margins remain modest on the back of aggressive bidding
- Competition present from other established players in the explosives and mining businesses
- Expected cash inflows from the Bengaluru project continue to be delayed (expected now from Q2 FY2018 as against previous guidance of Q1 FY2017); lease and sales agreements yet to be tied-up
- Sizeable contingent liabilities arising from corporate guarantee extended to bank lines of group companies as well as cash deficit undertaking provided to loans raised by an associate company for overseas acquisition

Description of key rating drivers highlighted above:

In FY2011, GOCL effected a demerger of its bulk explosives business, which formed a substantial part of its overall explosives business, to a wholly owned subsidiary, IDL Explosives Ltd (IDL). The company retained with itself the higher value added and profitable explosives accessories business (mainly detonators and detonating fuse). The Energetics division witnessed a y-o-y de-growth of 13% in FY2016 despite a 16% increase in volume of detonators. This was mainly on account of sharp drop of prices in the tender-driven domestic market and due to reduced export off-take of detonating fuse from Turkey. It had won orders from CIL for supplies from April 2015 to March 2017; nonetheless, the margins for the Energetics division have sharply declined due to higher competition seen in the reverse bidding auction conducted by CIL for the newer orders. The Mining & Infrastructure Services division witnessed sharp revenue de-growth in FY2016 due to the weak performance of the domestic mining sector. Further projects with some customers were stuck due to local protests. As a result, despite having contracts on hand, performance of this division has been weak in the past. There have been no additional orders won by the company in the past year. Presently, the company is monetizing its 40-acre plot at Yelahanka, Bengaluru, where it is setting up an IT/ITES SEZ on 30 acres. GOCL has entered into a Joint Development Agreement (JDA) with Hinduja Realty Ventures Limited (HRVL) for this project called ‘Ecopolis’. The cash inflows from the project were expected to commence from Q1 FY2017 however, there have been further delays due to which the company now expects cash inflows from ‘Ecopolis’ to start from Q2 FY2018. As GOCL has no exposure towards the project beyond its land, any delays in tie-up of customers would only lead to deferment in the cash inflows for the company. The company is also undertaking real estate development at its Hyderabad facility, and has entered into a JDA with Hinduja Estates Pvt Ltd for the same. However, due to sluggish market conditions and statutory approvals awaited from Greater Hyderabad Municipal Corporation (GHMC), further construction at the site has been toned down and as a result, the income from this division has been only Rs. 1.4 crore for 9M FY2017. The company has sizeable contingent liabilities arising from corporate guarantee extended to bank lines of wholly-owned subsidiary IDL Explosives Ltd and cash deficit undertaking provided to loans raised by an associate company for overseas acquisition of Houghton International Inc (Houghton).

In FY2016, the Realty division earned Rs. 15 crore from sale of TDR and impact fees for its Hyderabad project, which almost entirely accrued to the net profits. As the Energetics division witnessed de-growth in FY2016, the company's overall revenues also moderately declined by 7%. Margins from the Energetics business has however sharply declined in the current fiscal due to aggressively bid contracts, while the Mining division continues to operate at sub-par levels. Post the demerger, GOCL does not have any material long-term loans on its books. Given the reduced scale of operations at present, the company's working capital borrowings too are limited in comparison to its net worth size thereby resulting in a comfortable capital structure. The company's working capital intensity has moderated post the demerger of the lubricants business. The liquidity profile of the company is robust with low utilisation of its working capital bank limits at present.

Analytical approach: Not Applicable

Links to applicable Criteria
Corporate Credit Rating Methodology

About the Company:
GOCL Corporation Limited (GOCL), a Hinduja Group company, was formed in January 2002. Post the demerger of its Lubricants business, it has reclassified its business divisions into the following three verticals.

a) Energetics Division is involved in manufacture along with providing marketing and technical services in industrial explosives, detonators, explosive bonded metal clads and special devices for Defence and Space applications.
b) Mining & Infrastructure Services Division undertakes mining services in coal, iron ore, limestone and bauxite mines. It has taken up contracts in the infrastructure sector such as underground metro railways, elevated highways, industrial structures / buildings etc.
c) Realty Division is involved in development of large properties at Bengaluru and Hyderabad into SEZ, industrial parks and commercial conglomerates.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				March 2017	December 2015	October 2014	August 2013
1	Term Loans/LOC facility	Long Term	USD 180 million	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB^
2	Cash Credit	Long Term	Rs. 20.00 crore	[ICRA]BBB (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB^
3	Non-fund based limits	Short Term	Rs. 85.00 crore	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3^

^ *Ratings were put on watch with developing implications*

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue	Current Rating and Outlook
Term Loans/LOC facility	FY2013	-	FY2021	USD 180 million	[ICRA]BBB (Stable)
Cash Credit	-	-	-	Rs. 20.00 crore	[ICRA]BBB (Stable)
Non-fund based limits	-	-	-	Rs. 85.00 crore	[ICRA]A3+

Source: GOCL Corporation Limited

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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.

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