September 14, 2017

Gulf Oil Lubricants India Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	77.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Non-fund based – Letter of Credit/Bank Guarantee	315.00	[ICRA]A1+; reaffirmed
Total	**392.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating from [ICRA]AA- (pronounced ICRA double A minus) to [ICRA]AA (pronounced ICRA double A) 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) [1] aggregating to Rs. 392.00 crore[2]. The outlook on the long-term rating is 'Stable'.

Rationale

The upgrade of the long-term rating takes into account the demonstrated ability of the company to maintain its healthy profitability levels on the back of timely price revisions to mitigate the base oil price movement as well as its improving market share in the domestic lubricants industry, driven by its strong marketing efforts, well-recognised "Gulf" brand and wide distribution network. The company is one of the fastest growing players in the domestic industry and has continuously posted higher-than-industry growth in its volume sales including in the past two years (10% in FY2016 and 11% in FY2017), albeit at a lower base. The recovery being seen in the domestic automotive sector would further support its revenue growth. The ratings also take into account the company's strong financial profile, characterised by healthy profitability levels and return indicators and a comfortable capital structure. Owing to the low financing requirements and healthy cash accruals being generated in the business, the company's liquidity profile remains healthy with sizeable cash balances (which are in excess to the debt outstanding) and unutilised fund-based working capital limits. 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. 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. The company is setting up a greenfield lubricant oil manufacturing project near Chennai at a project cost of ~Rs. 180 crore which exposes it to execution risks. Nonetheless, while arriving at the ratings, ICRA has factored in the expected commissioning of the project in the current financial year which would support its revenue growth over the long-term and result in cost savings to meet customer requirements in southern region of India.

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[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*

ICRA notes that the company has sizeable contingent liability, arising from the cash deficit undertaking provided to loans raised by a group company prior to demerger of lubricants business for overseas acquisition of Houghton International Inc (Houghton); however, ICRA has considered that the residual US$ 117 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.

Key rating drivers
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. Furthermore, 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 lubricants products under the "Gulf" brand, which is a well-recognised brand in the domestic market driven by the growing distributorship network and strong marketing campaigns.

- **Robust financial profile -** The company's strong financial profile is characterised by its healthy profitability levels. GOLIL's profitability further improved in FY2017 on account of the timely price revisions, resulting in significant increase in cash accruals as compared to previous year. The company's net margins have improved supported by the healthy interest income earned by the company on its cash balances. The return indicators are also robust supported by the profitability in the business

- **Greenfield project at Chennai to augment capacity -** The Chennai plant will not only significantly augment the company's production capacity but will also reduce the freight costs for the customers based in south India.

Credit weaknesses

- **Exposed to the demand indicators of the automotive sector –** Automotive sector, being the key end-user industry is responsible for driving the domestic lubricants business. Although sales of automobiles have seen some recovery over the past year on the back of which the lubricants industry witnessed a higher growth in FY2017, GOLIL's growth will continue to remain linked to any fluctuations in the demand from the automotive segment.

- **Profitability exposed to the movement in base oil prices and forex –** Base oil is a crude oil product and thus the prices of base oil are volatile in nature. Hence, the profitability of the company is contingent upon the ability of the company to pass on any fluctuations in input prices to the end-users. The company meets about 65%-70% of its base oil requirement through imports and owing to limited exports, it lacks any natural hedge against forex fluctuations. However, it follows a hedging policy wherein about 50% of the net forex exposure is covered through forward contracts

- **High competitive intensity –** The company remains exposed to 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.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:
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. 180 crore, which is expected to be operational by Q3 FY2018 with manufacturing capacity of 40,000~50,000 KLPA.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	1,011.4	1,131.1
PAT (Rs. crore)	100.3	121.1
OPBDIT/ OI (%)	15.7%	15.9%
RoCE (%)	40.7%	41.1%
Total Debt/ TNW (times)	0.8	0.5
Total Debt/ OPBDIT (times)	1.2	1.0
Interest coverage (times)	8.7	17.8
NWC/ OI (%)	12%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Sept 2017	Aug 2016	Aug 2015	Sept 2014
1	Cash Credit	Long Term	77.00	77.00	[ICRA] AA (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)	[ICRA] A (Stable)
2	Letter of Credit/Bank Guarantee	Short Term	315.00	315.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1

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

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	77.00	[ICRA]AA (Stable)
-	Letter of Credit/Bank Guarantee	-	-	-	315.00	[ICRA]A1+

Source: GOLIL

ICRA

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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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