

October 28, 2019

Gulf Oil Lubricants India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	92.00	92.00	[ICRA]AA (Positive); reaffirmed
Non-Fund Based Limits	400.00	400.00	[ICRA]A1+; reaffirmed
Total	492.00	492.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings take into account the company's ability to maintain healthy profitability levels on the back of timely price revisions to mitigate the impact of base oil price movements 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 regularly posted higher-than-industry growth in its volume sales (25% YoY growth in FY2019). 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 (net cash accruals of Rs. 142.7 crore in FY2019), the company's liquidity profile remains healthy with sizeable cash balances (which are in excess of 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 also favourably consider the stabilisation of operations at company's Chennai plant which was commissioned in December 2017 and formally commenced production in May 2018. The Chennai plant operated at ~60% utilisation in FY2019 and has reduced freight costs for sales in South India.

The ratings are, however, constrained by the exposure of the company's profitability to movements in base oil prices. The company's profitability is also exposed to the forex movements (to the extent of the unhedged exposure). An increase in in base oil prices along with the Rupee depreciation impacted the company's profitability to some extent in FY2019; nonetheless, the overall profitability remained healthy backed by a significant increase in sales volumes as well as regular price revisions undertaken by the company. 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 had a 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). ICRA notes that the same has been paid off in full in August 2019 thereby freeing GOLIL of the contingent liability.

ICRA also notes that the current slowdown in the automotive sector as well as a general slowdown in the economy, could potentially impact on the sales of lubricants and related products in the near term. Nonetheless, Gulf Oil Lubricants

India Limited (GOLIL) recorded a healthy volume growth of 7.5% YoY in Q1 FY2020, much higher than the rest of the industry.

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-recognized brand in the domestic market strengthened by a growing distributor network and strong marketing campaigns. The company’s sales volumes grew 25% YoY in FY2019 and 7.5% YoY in Q1 FY2020, much higher than the industry average.

Robust financial profile - The company’s strong financial profile is characterised by healthy profitability levels. GOLIL’s profitability remained healthy in FY2019 on account of the timely price revisions, resulting in an increase in cash accruals as compared to previous year. The company’s net margins remained healthy supported by sizeable interest income earned by the company on its cash balances. The return indicators are also robust supported by the profitability in the business. The debt coverage metrics of the company are also healthy.

Greenfield project at Chennai to augment capacity - The company’s Chennai plant, commissioned in December 2017, has led to significant addition to the company’s production capacity. The plant was setup at a project cost of ~Rs. 190 crore and has a capacity of 50,000 KLPA. The plant operated at ~60% utilisation in FY2019. The plant has helped to reduce freight costs for customers based in South India that were previously being serviced by the company’s existing plant at Silvassa. In addition, the company would be able to penetrate further in new geographies in South India and East India owing to its manufacturing presence in Chennai.

Credit challenges

Exposed to the 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. Sales of automobiles have witnessed a slowdown over the last few quarters. While the long-term outlook for the automotive sector remains strong, GOLIL’s growth will continue to remain linked to any intermittent fluctuations in the demand from the automotive segment. Additionally, due to a broader slowdown in the economy the demand of lubricants may also be impacted in the near term.

Profitability exposed to the movement in base oil prices and forex rates – 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 as advised by forex consultants whereby it always keeps its exposures partially hedged.

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.

Liquidity Position: Strong

GOLIL's liquidity position is **strong** with sizeable cash balances of Rs. 292.6 crore as on March 31, 2019. Further, the company has no long-term debt repayment obligations. GOLIL has been consistently generating healthy cash accruals which increased to Rs. 142.7 crore in FY2019 from Rs. 120.8 crore in FY2018. GOLIL has adequate cushion available in the form of fund-based working capital limits, the utilisation for which is negligible.

Rating Sensitivities

Positive triggers – The ratings could be revised upwards if GOLIL continues to achieve healthy volume growth along with healthy profitability.

Negative triggers – Downward pressure on the ratings could arise if the company faces significant weakening in its profitability levels owing to de-growth in sales volumes due to continued slowdown in the automotive sector and/or volatility in crude oil prices and high competitive intensity in the industry.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
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. 1st April 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 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 manufacturing capacity of 50,000 KLPA in December 2017.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,332.3	1,705.8
PAT (Rs. crore)	158.6	177.8
OPBDIT/OI (%)	17.7%	16.6%
RoCE (%)	41.1%	36.1%
Total Debt/TNW (times)	0.5	0.5
Total Debt/OPBDIT (times)	1.1	1.0
Interest coverage (times)	26.6	18.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				28-Oct-2019	04-Oct-2018	14-Sep-2017	26-Aug-2016	
1 Fund Based Limits	Long-Term	92.00	-	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)	
2 Non-Fund Based Limits	Short-Term	400.00	-	[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 Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	-	-	-	92.00	[ICRA]AA (Positive)
NA	Non-Fund Based Limits	-	-	-	400.00	[ICRA]A1+

Source: Gulf Oil Lubricants India Limited

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