November 18, 2024

Gulf Oil Lubricants India Limited: Long term rating upgraded to [ICRA]AA+(Stable) and Short term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	92.00	92.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA (Stable)
Short Term-Fund Based/Non Fund Based-Others	50.00	50.00	[ICRA]A1+; reaffirmed
Short Term-Non Fund Based-Others	490.00	490.00	[ICRA]A1+; reaffirmed
Total	**632.00**	**632.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the expectation of healthy improvement in the credit profile of the company over the next couple of years as the demand for its products is expected to remain healthy supported by increasing vehicle sales, wide distribution network and a strong brand recall for the company's products. ICRA expects the total debt/OPBDITA to remain around 0.7x going forward along with robust liquidity position.

The ratings continue to factor in the company's strong financial profile, characterised by healthy profitability levels and return indicators and a comfortable capital structure. In FY2024, the company witnessed healthy revenue growth driven by a mix of growth in the sales volume and realisations. The operating profit also increased in FY2024 driven by the growth in volumes and company passing on the increase in the raw material prices to consumers. The trend has continued in H1 FY2025 with company witnessing healthy volume growth and associated growth in operating profits. 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. The company has also been witnessing improvement in its market share in the domestic lubricants industry, driven by its strong marketing efforts, the well-recognised Gulf brand and a wide distribution network. The company also benefits from being part of the Hinduja group as it derives operational and strategic benefits from being part of the 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, supported by the company's leadership position in the lubricant industry, strong brand and 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 Y-o-Y revenue increase of ~10% in FY2024, driven by ~4% Y-o-Y increase in sales volumes (core lubricants) during the fiscal. The company's operating margin improved from 11.4% in FY2023 to 12.8% in FY2024 on account of softening in input costs followed by price revisions undertaken by the company. The OPBDITA increased by ~22% Y-o-Y while the net profits increased by ~33% Y-o-Y. The working capital intensity remained moderate in FY2024, with NWC/OI of 14.7%, 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 80,000+ retail outlets, more than 7600 bike stops and 2,600 car stops, over 70 industrial distributors and 500 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 70-75%.

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. Advent of electric vehicles could impact certain segments of business partially in the long term given the materially lower requirement of lubricants vis-à-vis Internal Combustion Engine (ICE) vehicles. However, initiatives taken by the company to develop EV fluids, increase in sale of products like Adblue, which enable reduction in NOx 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. 702.9 crore as on March 31, 2024. Owing to the healthy cash flow from operations, cushion in the unutilised fund-based limits, limited capex and no long-term debt repayments, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant growth in GOLIL's scale along with increased product diversification to the non-automotive segment and expansion in market share. The ratings may also be revised upwards if the company is able to maintain healthy profitability amid a comfortable capital structure and liquidity on a sustained basis.

Negative factors – Significant weakening in the profitability and/or de-growth in sales volumes due to 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 and/or sizeable investments/material support to GOLIL's subsidiaries/associates or any large debt-funded capex/acquisition 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 23% 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 in addition to the existing capacity of 12,000 KL at Silvassa plant, thereby taking the total capacity of Adblue to 30,000 KL.

Key financial indicators (audited)

	FY2023	FY2024	H1FY2025
Operating income	2999.1	3284.1	1734.4
PAT	232.3	308.1	172.5
OPBDIT/OI	11.4%	12.8%	12.9%
PAT/OI	7.7%	9.4%	9.9%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.8
Total debt/OPBDIT (times)	1.0	0.8	0.9
Interest coverage (times)	9.1	16.4	20.7

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Nov 18, 2024	Date	Rating	Date	Rating	Date	Rating
Short term-others-non fund based	Short Term	490.00	[ICRA]A1+	08-SEP-2023	[ICRA]A1+	10-OCT-2022	[ICRA]A1+	07-SEP-2021	[ICRA]A1+
Long term-cash credit-fund based	Long Term	92.00	[ICRA]AA+ (Stable)	08-SEP-2023	[ICRA]AA (Stable)	10-OCT-2022	[ICRA]AA (Stable)	07-SEP-2021	[ICRA]AA (Stable)
Short term-others-fund based/non fund based	Short Term	50.00	[ICRA]A1+	08-SEP-2023	[ICRA]A1+	10-OCT-2022	[ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Cash Credit	Simple
Short Term-Fund Based/Non Fund Based-Others	Simple
Short Term-Non Fund Based-Others	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term-Fund Based-Cash Credit**	NA	NA	NA	92.00	[ICRA]AA+ (Stable)
NA	**Short Term-Fund Based/Non Fund Based-Others**	NA	NA	NA	50.00	[ICRA]A1+
NA	**Short Term-Non Fund Based-Others**	NA	NA	NA	490.00	[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

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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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