September 07, 2021

Gulf Oil Lubricants India Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits	142.00	142.00	[ICRA]AA(Stable); reaffirmed
Short -term Non-Fund Based Limits	400.00	420.00	[ICRA]A1+; reaffirmed/assigned
Total	**542.00**	**562.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings of Gulf Oil Lubricants India Limited (GOLIL), considers the company's strong financial profile, characterised by healthy profitability levels and return indicators and a comfortable capital structure. 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. In FY2021, despite the impact of Covid-19 pandemic and subdued industry demand, the company recorded 4% YoY volume growth driven by growth in industrial oil and diesel oil segment, partly offset by decline in motorcycle and passenger car segment. During Q1 FY2022 the company reported YoY revenue growth of ~73%, however, it witnessed QoQ revenue decline of ~19% because of the second wave of the pandemic and closure of retail markets in various states in a phased manner. Nonetheless, with the easing of containment measures there has been subsequent recovery in volumes.

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 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 ratings also consider the company's robust financial risk profile, characterised by healthy profitability levels and return indicators. Owing to the low financing requirements and healthy cash accruals generated by the business (net cash accruals of Rs. 127.3 crore in FY2021), the company's liquidity profile remains healthy with sizeable cash balances (which are more than 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 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 remain 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 it will continue to benefit from its established brand name and strong distribution network. Also, the financial performance is expected to remain robust, supported by expected recovery in demand in line with pick-up in economic activity.

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. 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.

Robust financial profile - The company's strong financial profile is characterised by healthy profitability levels. The company witnessed marginal YOY revenue increase of 0.5% in FY2021, driven by ~4% YoY increase in sales volumes during the fiscal. However, the company's net realizations decreased by ~3% YoY and operating margin moderated to 16.0% in FY2021 from 17.4% in FY2020 on account of higher input costs amid sharp rise in base oil prices during H2 FY2021, whose impact was partially mitigated by price increases and cost control initiatives undertaken by the company. However, the company's net margin remained stable at ~12% for FY 2021. The working capital intensity remains largely stable in FY2021, with NWC/OI of 17.7% and the debt coverage metrics also remained healthy. The return indicators are robust supported by the profitability in the business.

Strong distribution network – GOLIL's lubricants sales are broadly bifurcated between automotive segment and the industrial segment, of which majority are to the automotive segment. Within the automotive segment, the company's sales are distributed between Diesel Engine Oils (which are used in trucks and tractor segment), Motorcycle Oils and Passenger Car Oils. GOLIL has an extensive distribution network comprising of over 300 distributors and 75,000 retail outlets, more than 8,000 bike stops and 2,000 car stops, over 50 industrial distributors and 200 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 remain 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 80-85%.

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.

Liquidity position: Strong

GOLIL's liquidity position is **strong** with sizeable cash balances of Rs. 495.6 crore as on March 31, 2021. Further, the company has no long-term debt repayment obligations and has been generating healthy cash flow from operations. GOLIL also has adequate cushion available in the form of unutilised fund-based working capital limits.

Rating sensitivities

Positive factors - Stable growth in volumes while maintaining healthy profitability and credit metrics could lead to a rating upgrade.

Negative factors - Significant weakening in the profitability and/or de-growth in sales volumes due to continued 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 or large debt-funded capex leading to weakening of its liquidity profile could also put downward pressure on ratings. Specific credit metrics that could result in rating downgrade include ROCE dropping below 20% 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 manufacturing capacity of 50,000 KLPA in December 2017

Key financial indicators (audited)

GOLIL	FY2020	FY2021
Operating Income (Rs. crore)	1643.5	1651.3
PAT (Rs. crore)	202.5	200.1
OPBDIT/OI (%)	17.4%	16.0%
PAT/OI (%)	12.3%	12.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7
Total Debt/OPBDIT (times)	1.3	0.8
Interest Coverage (times)	11.5	18.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Sep 07, 2021	Aug 28, 2020	Oct 28, 2019	Oct 04, 2018
1	Fund-based Limits	Long-term	142.0	--	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**
2	Non-Fund Based Limits	short term	420.0	329.7	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Limits	Simple
Short -term Non-Fund Based Limits	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name*	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Kotak Mahindra Bank	Fund based limits	NA	NA	NA	20.00	[ICRA]AA(Stable)
IDBI Bank	Fund based limits	NA	NA	NA	15.00	[ICRA]AA(Stable)
ICICI Bank	Fund based limits	NA	NA	NA	15.00	[ICRA]AA(Stable)
Yes Bank	Fund based limits	NA	NA	NA	15.00	[ICRA]AA(Stable)
Citi Bank (unsecured)	Fund based limits	NA	NA	NA	15.00	[ICRA]AA(Stable)
Standard Chartered Bank	Fund based limits	NA	NA	NA	12.00	[ICRA]AA(Stable)
Axis Bank (Unsecured)	Fund based limits	NA	NA	NA	50.00	[ICRA]AA(Stable)
Kotak Mahindra Bank	Non-Fund based limits	NA	NA	NA	105.00	[ICRA]A1+
IDBI Bank	Non-Fund based limits	NA	NA	NA	15.00	[ICRA]A1+
IDBI Bank (Unsecured)	Non-Fund based limits	NA	NA	NA	20.00	[ICRA]A1+
ICICI Bank	Non-Fund based limits	NA	NA	NA	75.00	[ICRA]A1+
Yes Bank	Non-Fund based limits	NA	NA	NA	35.00	[ICRA]A1+
Citi Bank (Unsecured)	Non-Fund based limits	NA	NA	NA	85.00	[ICRA]A1+
Standard Chartered Bank	Non-Fund based limits	NA	NA	NA	35.00	[ICRA]A1+
Standard Chartered Bank (Unsecured)	Non-Fund based limits	NA	NA	NA	50.00	[ICRA]A1+

Source: *Company*

**Fund based limits are interchangeable with non-fund based limits as per the board resolution of Gulf Oil*

Annexure-2: List of entities considered for consolidated analysis

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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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