

Gulf Oil Lubricants India Limited

October 04, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	77.00	92.00	[ICRA]AA (Positive); reaffirmed and outlook revised from 'Stable' to 'Positive'
Non-Fund Based Limits	315.00	400.00	[ICRA]A1+, reaffirmed
Total	392.00	492.00	

*Instrument details in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the bank limits of Gulf Oil Lubricants India Limited (GOLIL) aggregating to Rs. 492.00 crore¹² (enhanced from Rs. 392.00 crore). The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The revision in the rating outlook factors in the stabilisation and gradual scale up of operations at company's recently commissioned plant in Chennai that would enhance the cash accruals from the business. The Chennai plant, having an installed capacity of 50,000 kilo litres per annum (KLPA) would also help in reducing freight costs for sales in South India. The ratings also take into account the company's ability to maintain 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 regularly posted higher-than-industry growth in its volume sales (14% growth in FY2018). The ratings also take into account the healthy demand outlook for the domestic automotive sector which would support growth in the lubricants industry.

The ratings reaffirmation also takes 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 that have been rising in the current calendar year following an increase in international crude prices. The company's profitability is also exposed to the forex movements (to the extent of the unhedged exposure). ICRA expects the increase in base oil prices along with the Rupee depreciation to impact the company's profitability to some extent in the current financial year; nonetheless, the overall profitability is expected to be supported by the increase in sales volumes as well as regular price revisions as undertaken by the company in the past. 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

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

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.

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\$67 million loan (outstanding against 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.

Outlook: Positive

ICRA believes GOLIL will continue to benefit from its established position in the lubricants industry, the increase in its manufacturing capacities and its strong parentage. The ratings could be upgraded if the company is able to maintain its higher-than-industry volume growth as well as its healthy profitability levels resulting in an increase in overall cash accruals. The outlook may be revised to 'Stable' if the company faces any significant weakening in its profitability levels given the rising crude prices and the high competitive intensity in 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 driven by the growing distributorship network and strong marketing campaigns. The company's sales volume grew 14% YoY in FY2018, much higher the industry average. In Q1 FY2019, GOLIL's sales volumes increased significantly by 33% YoY.

Robust financial profile - The company's strong financial profile is characterised by healthy profitability levels. GOLIL's profitability improved further in FY2018 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. The company's liquidity profile remains robust supported by healthy cash balances (Rs. 326 crore as on March 31, 2018) which is higher than the gross debt outstanding on its books. The debt coverage metrics of the company are also healthy.

Recently commissioned 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 currently has a capacity of 50,000 KLPA. The plant would help reduce the freight costs for the 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 owing to its manufacturing presence in Chennai.

Credit weaknesses

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 seen some recovery over the past two years, after a sluggish period of growth, which in turn has led to a revival in the domestic lubricants industry. 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.

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.

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:

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 currently 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 initial manufacturing capacity of about 50,000 KLPA in December 2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,086.8	1,332.3
PAT (Rs. crore)	117.6	158.6
OPBDIT/ OI (%)	16.4%	17.7%
RoCE (%)	40.3%	41.1%
Total Debt/ TNW (times)	0.5	0.5
Total Debt/ OPBDIT (times)	1.0	1.1
Interest coverage (times)	17.5	26.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Oct 2018	Sep 2017	Aug 2016	Sep 2015	
1 Fund Based Limits	Long-Term	92.00	-	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	
2 Non-Fund Based Limits	Short-Term	400.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Source: GOLIL

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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