

Gumpro Drilling Fluids Private Limited

February 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term Loan	4.89	9.97	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB (Stable)
Fund based- Working Capital Facilities	4.50	6.00	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB (Stable)
Fund based- EPC/PCFC/SLOC	10.00	14.00	[ICRA]A2; Upgraded from [ICRA]A3+
Non-fund based- LC/BG/Forward Contracts	10.23	9.50	[ICRA]A2; Upgraded from [ICRA]A3+
Total	29.62	39.47	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in ratings takes into account the healthy increase in scale of operations of Gumpro Drilling Fluids Private Limited (GDFPL) at a consolidated level following the recovery in demand from the global oil and gas exploration and production industry as well as significant ramp up in the company's UAE-based subsidiary, viz. Gumpro Drilling Fluids FZE (GDFF), driven by sizeable order from a key customer. As a result, the company's operating profitability and cash accruals have seen healthy improvement in FY2018 and H1 FY2019. The company's financial profile is further supported by a comfortable capital structure given the limited reliance on external borrowings and healthy debt coverage metrics. The ratings continue to favourably consider the extensive experience of the promoters and the company's established market position in the supply of drilling fluid additives, and its reputed customer base, which includes major global companies in the oilfield services space with strong credit profile. The ratings also take into account the company's strong in-house product development capabilities as evident from the advances made by the company in the oil-based additives category.

The ratings are, however, constrained by the high working capital intensity in the company's business and high competition from globally established players. The company's revenue growth remains exposed to the investment cycle of the oil exploration and production (E&P) industry. The ratings also take into account the vulnerability of the company's operations to foreign exchange fluctuations given the high share of the exports, though the same is partly mitigated by the imports of part of raw material requirements. The ratings further take into account the muted performance of the company's subsidiary, ASAP Fluids Private Limited (AFPL) owing to the slowdown in the demand for E&P services in the sector in the past years; the company has extended corporate guarantees to the lenders of AFPL. GDFPL plans to set up a greenfield project in Saudi Arabia (through a wholly-owned subsidiary) to manufacture products mainly for sales in the local market, which exposes it to execution and marketing risks. Nonetheless, the project would be entirely funded through internal accruals and thus the company's capital structure is expected to remain comfortable over the medium term.

Outlook: Stable

ICRA believes Gumpro Drilling Fluids Private Limited will continue to benefit from the extensive experience of its promoters as well as the strong customer base. The outlook may be revised to 'Positive' if the company sees further growth in its consolidated revenues and cash accruals from existing operations as well as its upcoming project in Saudi Arabia. The outlook may be revised to 'Negative' if the company witnesses any material cost overrun for its greenfield project or faces any slowdown in the demand drivers that would impact its financial profile.

Key rating drivers

Credit strengths

Established track record in the drilling fluid business and strong in-house product development capabilities - GDFPL's promoters have considerable experience in the field of manufacturing drilling fluid additives, and both GDFPL and its subsidiary viz. AFPL, have employed experienced and technically qualified management personnel. Further, GDFPL has a long-proven track record and an established market position in the supply of drilling fluid additives, both in the domestic as well as international markets. The company also has its own R&D facilities supporting the development of new additives and formulations. The efficiency and strength of the in-house product development is evident from the advances made by the company in the oil-based additives category including the recently launched powder emulsifiers for which the company has received patents.

Reputed customer base with strong credit profile - The company's customer base includes some of the largest global oilfield services companies such as Baker Hughes Inc., Saudi Aramco, Geomud Nigeria Ltd. and other large domestic companies such as, Oil & Natural Gas Corporation Ltd. While there are no long-term contracts with the customers, GDFPL continues to receive repeat orders from its customers given its established track record of supply. The presence of such major global companies with strong credit profile as its customers is a credit positive for GDFPL.

Increase in scale of operations through healthy ramp up of the company's UAE subsidiary - The company reported a healthy YoY growth of 37% in operating income in FY2018 at a consolidated level with the trend continuing in H1 FY2019. The increase in revenue is driven by improvement in the company's domestic operations with increase in exports to both, USA and the Middle East following a recovery in the E&P industry and ramp-up of operations at the company's UAE subsidiary that mainly supplies to Baker Hughes. With increase in scale of operations, the operating profits (OPBDITA) increased 24% YoY in FY2018 and continue to remain healthy in the current fiscal. The capital structure of the company remains comfortable with the majority of debt on the books of the company comprising of working capital facilities. The coverage indicators of GDFPL remain robust.

Credit challenges

Vulnerability to cyclicity of the oil and gas E&P industry – The company's operations remain exposed to the cyclicity in E&P expenditure, which varies with the general economic cycle as well as outlook for oil and gas prices. The company's revenue growth was impacted during a depressed international crude oil prices scenario; however, the same has picked up following a recovery in the crude oil prices. The same is reflected in the YoY increase in the monthly rig count in FY2018 in the GDFPL's key markets viz. USA, Middle East, and Africa. Further, the geographical diversification of the company's sales partly mitigates this risk.

Exposed to foreign exchange and input price fluctuation risks – The high share of exports in the company's revenue mix leads to exposure to foreign currency fluctuation risk; although the same is mitigated to an extent due to part imports of raw materials. The major raw materials for the company are procured through a mix of imports and indigenous

procurement. The operations of the company remain vulnerable to availability and also adverse fluctuations in the prices of the key raw materials.

High level of competition from established global players - Since the company mainly targets the export markets for its manufactured portfolio of products, it also faces competition from the large global manufacturers of drilling fluid additives in Europe and North America, as well as competition from a number of smaller players across various geographies, including China and India.

High working capital intensity - The company's working capital intensity remains high due to the nature of its operations. The working capital intensity increased in FY2017 due to slow-moving inventory during the fiscal; however, the same has come down in FY2018 in line with recovery in the global market scenario.

Liquidity Position:

GDFPL's cash flow from operations turned positive in FY2018 supported by healthy profitability and decline in working capital intensity. The cash flows continue to remain healthy in the current fiscal owing to increase in domestic operations as well as healthy ramp up of UAE operations. The liquidity profile of the company is further supported by adequate buffer of unutilised working capital limits and healthy cash balances of Rs. 9.5 crore as of March 31, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Gumpro Drilling Fluids Private Limited. As on March 31, 2018, the Company had 2 wholly-owned subsidiaries that are enlisted in Annexure-2.

About the company:

Gumpro Drilling Fluids Private Limited (GDFPL) was established in 1995 as Gumpro Chem Bombay, a proprietorship concern, and reconstituted as a private limited company in 2008 under its present name. The company is promoted by Mr. Anand Gupta. GDFPL primarily manufactures drilling fluid (also referred to as drilling mud) additives used to facilitate the process of drilling oil and/or natural gas from hydrocarbon reserves, both onshore and offshore. In February 2010, GDFPL spun off its services division to form a subsidiary, ASAP Fluids Private Limited (AFPL), which provides the supply of drilling fluids and onsite engineering services to customers involved in the E&P for oil and natural gas. In FY2015, the company commissioned a subsidiary in UAE, viz. Gumpro Drilling Fluids FZE (GDFF), for manufacturing powder-based additives.

Key financial indicators (Consolidated - audited)

	FY2017	FY2018
Operating Income (Rs. crore)	91.6	125.5
PAT (Rs. crore)	6.9	11.4
OPBDIT/OI (%)	16.7%	15.1%
RoCE (%)	15.4%	20.3%
Total Debt/TNW (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.6	1.3
Interest coverage (times)	5.3	6.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Feb 2019	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2016
					Mar 2018	Dec 2017	Nov 2016	Sep 2015	
1 Term Loan	Long Term	9.97	9.97	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Cash Credit	Long Term	6.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
3 EPC/PCFC/ SLOC	Short Term	14.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	
4 Letter of Credit/ Bank Guarantee/ Forward Contracts	Short Term	9.50	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	

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	Term Loan	Jan - 2015	NA	Aug-2020	9.97	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]BBB+ (Stable)
NA	EPC/PCFC/SLOC	NA	NA	NA	14.00	[ICRA]A2
NA	Letter of Credit/ Bank Guarantee/ Forward Contracts	NA	NA	NA	9.50	[ICRA]A2

Source: Gumpro Drilling Fluids Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ASAP Fluids Private Limited	100.00%	Full consolidation
Gumpro Drilling Fluids FZE	100.00%	Full consolidation

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