Press Release

GOCL Corporation Limited

November 04, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities- Cash Credit	20 (Including Proposed Limit of 5 Crores)	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	Revised from IVR A -/Stable Outlook (IVR Single A Minus with Stable Outlook)
2	Non Fund Based Facilities- Bank Guarantee	85 (Including Proposed Limit of 29 Crores)	IVR A1 (IVR A One)	Revised from IVR A2+ (IVR A Two Plus)
3	Letter Of Comfort	689.41	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	Rating Withdrawn

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from the long track record of operation of the company, strong promoter group and experienced management, demonstrated support from Hinduja Group, diversified business operations, stable income generation through lease rentals, strong gearing ratio, improved Operating Cycle and good order book position. The rating however is constrained by volatility in nature of business, moderate profitability on consolidated basis, moderate debt protection parameters, customer concentration risk and vulnerability of profitability to fluctuations in raw material price.

Key Rating Sensitivities:

- **Upward Rating Factor-**Improvement in entity's scale of operations, adequate cash flow generation and improvement in overall gearing of the Company.
- **Downward Rating Factor -**Any adverse change in the regulatory & environmental framework and selection of product-mix &vulnerability of profitability to fluctuations in raw material prices.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long Track Record of operations

GOCL was incorporated in 1961 for manufacturing industrial explosives, reflecting a track record of more than 5 decades. In the past, the company had forayed into various segments like lubricants, mining, real estate, wind energy, food chemicals, pharmaceuticals, etc. through various joint ventures/subsidiaries. Currently, it has its presence mainly in energetic & explosives with real estate and mining segments constituting a small proportion of revenue at present.

Strong Promoter Group and experienced Management

The company is a part of the Hinduja Group which came into existence in1918. It is one of the largest diversified groups having presence in around 30 countries in sectors encompassing automotive, oil &, banking & finance, power, IT & BPO, media and healthcare. The day-to-day affairs of the company are currently looked after by Mr. Ajay Hinduja, Chairman of GOCL while the day-to-day affairs of the company are looked after by Mr. Subhas Pramanik, who is the MD. He is well assisted by a team of experienced management professionals whose experience in running various businesses is a key strength for GOCL.

Demonstrated Support from Hinduja Group

The operating businesses of the Company mainly comprise of Energetic and Explosives business, Realty business & Investments. The company has recently ventured into the real estate segment, wherein it is in the process developing an IT knowledge park at Bengaluru& Hyderabad.The Board is also looking at the opportunities for investments that will be value enhancing for the Company in the international market.

Stable income generation through the real estate division in the form of lease rentals

By venturing into the real estate segment, the Company will have ensured stable revenue generation by leasing out the facilities.As on date, the tie-ups with few lessees is complete and fruitful discussions with potential lessees are in progress and expected to materialise soon.Forecast for year 2019 in India is, a total demand for office space is expected to be over 45.7 million sq. feet. The key driver of demand will be likely from the technology sector followed by the banking, financial services and insurance, flexible workspace and consulting sectors. Also expected are substantial new supplies totalling over 51.3 million sq. ft., with major share from Bengaluru, the NCR and Hyderabad in 2019 as developers respond to steady demand. The expected average rents can rise at an average annual rate of 1.7% over

2018 driven by high-quality assets in core locations. Recently, the government announced 'Vision 2030 for Hyderabad' aimed at creating a vibrant business ecosystem.

Significant upside from shareholding in Houghton International Inc. (HII) & subsequent merger of NYSE listed Quaker Chemical Corporation with HII

GOCL, through its subsidiaries & associates, has 10% equity stake in HII (unlisted company). HII had entered into a definitive agreement for merger with Quaker Chemical *Corporation* which is engaged in a similar line of business.On August 1, 2019 this year, the merger of Houghton International with NYSE listed Quaker Chemical Corporation in the US has been completed. The Company (GOCL) had through its wholly owned subsidiary inUK, HGHL Limited, invested GBP 1,00,000 in the Group' acquisition project of Houghton. The 10% investment in Houghton InternationalInc. will result in approximately 2.4% holding in the QuakerChemical Corporation.This investment has turned out well for the Company as the loan of USD 300 mn for the project supported by mortgage of the Company's land at Hyderabad, has been totally repaid. The mergerof Houghton International with Quaker Chemical Corporation in the US will lead to a combination holdingglobal leadership in the process fluids, chemical specialities, and technical expertise to the global primarymetal and metal working industries.Following closing, the Company is a beneficial holder of 427,395 shares of Common Stock in QuakerHoughton Ltd, a New York listed entity and an adjusted cash consideration of USD 12.2 million / INR 84.20 Crore (before deduction of the escrow amount). Current attributable market value of the aforesaid Quakershares is approximately USD 80.3 million / INR 554 Crore as on August 1, 2019 (INR 540 Crore as on March 31, 2019). The Board is actively looking into appropriate timing for exiting the shares at the highest value.

Strong Gearing ratio

The Company (GOCL-Standalone) does not have any outstanding Term Loan as on March 31, 2019. Thus, its Total debt to Equity ratio stands strong at 0.01 as at March 31, 2019. On Consolidated basis also, the overall gearing ratio of the Company is good & further improved from 0.98x in FY18 to 0.57x in FY19. The long-term debt to equity ratio stood strong & improved from 0.91x in FY18 to 0.53x in FY19.

Improved Operating Cycle

The Average Operating Cycle of the company (on Consolidated basis) has improved from 62 days in FY18 to 46 days in FY19, mainly on account of reduction in collection period and inventory days, reflecting lower funds being blocked in working capital.

Good Order Book position

The Company has orders on hand worth INR 109 Crore as on date. This constitutes 110% of FY19 turnover (Standalone of INR 98.60 Crore).

Government opportunities

The activity in the defence sector is increasing, especially with the stabilization of the 'Make in India' projects and initiatives. The niche areas which are catered to by the Company's Special Product and Metal Cladding Groups are coming into prominence and they expect to develop more sophisticated products for these niche markets.The Government of India is taking steps to boost the Country’s domestic steel sector and raise its capacity to 300 MT by 2030-31.

FDI caps in the mining and exploration of metal and non-metal ores have been increased to 100% under the automatic route.'National Mineral Policy 2019' launched for transparency, better regulation and enforcement, balanced social and economic growth into the sector.

In July 2018, Union Minister of Coal, Railways, and Finance& Corporate Affairs launched a mobile application ‘Khan Prahari’ and Coal Mine Surveillance & Management System (CMSMS) developed by Central Mine Planning and Design Institute (CMPDI).We understand that the Government is planning to divest a part of its holding in 3 subsidiaries of Coal India Limited namely Northern Coalfields, Southern Eastern Coalfields and Mahanadi Coalfields. The decentralization is expected to increase further efficiencies and increase in production. As compared to this optimistic situation in coal production, the metal firms are awaiting a major change in MMRD Act to make iron ore, bauxite, lime stone and manganese ore available for the metal industry.

Key Rating Weakness

Volatility in nature of business

Due to the slowdown in the realty sector over the past several years, the monetization of the realty estate has been delayed. In 2018, the operations of the mining division continued to be curtailed due to clients not receiving mining approval from respective State Governments under the MMRDA Act. However, in the latter part of the year, some mines started reopening at a slow pace. Overall the market demand was sluggish on account of slowdown in infrastructure, large mining and irrigation projects.

Moderate profitability (on consolidated basis)

Over a period of last 3 years, the Company's total income from operations has been at an average of INR ~500 Crore. However, the operating revenue of the Company has increased from INR ~483 Crore in FY18 to INR ~532 Crore in FY19, indicating a growth rate of 10%. The EBITDA margin has almost remained same at 5.61% in FY18 & at 6.01% in FY19. The Profit from operations has been negative and Interest coverage & debt service indicators below Unity. However, PAT is positive & has increased from INR 34 Crore in FY18 to INR 40 Crore in FY19, indicating a margin of 6.8% in FY19. This is due to non-operating income of INR 61 Crore in FY19 (& INR 68 Crore in FY18).

Moderate debt protection parameters

On Consolidated basis, the long term debt to GCA is high in FY19, however improved from 20.24 in FY18 to 10.96 in FY19.

Customer Concentration risk

On Standalone basis, the Company's top five customers accounted for around 77% of the total revenue, reflecting high customer concentration risk for the company.

Vulnerability of profitability to fluctuations in raw material price

The basic raw materials required by the company are coating materials, chemicals, metals, etc. the prices of which are volatile in nature. Hence, the profitability of GOCL is exposed to variations in raw material prices. Also, globally the tensions over trade issues, Brexit, and Middle East issues are hitting up crude oil prices to a higher level. This is expected to pose problems in the Indian economy unless some de-escalation takes place.

Analytical Approach & Applicable Criteria:

- Consolidated
- Rating Methodology for Manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The group has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. As at March 31, 2019, the company had cash & balance of INR 57.38 Crore.The utilization of working capital limits remained at 33.40% during the 12 months ended April 30, 2019, leading to a comfortable liquidity cushion.

About the company

GOCL Corporation Limited (GOCL), formerly Gulf Oil Corporation Limited, was incorporated in 1961. The company is a part of the "Hinduja Group" which is one of the largest diversified groups in the country spanning various sectors of the economy.

Financials (Consolidated) **(Rs. Crore)**

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	482.75	532.08
EBITDA	27.08	31.96
PAT	34.11	40.56
Total Debt	802.21	537.98
Tangible Net worth	819.64	939.41
EBIDTA Margin (%)	5.61	6.01
PAT Margin (%)	6.19	6.84
Overall Gearing ratio (x)	0.98	0.57

* Classification as per Infomerics' standards

Details of Non Cooperation with any other CRA: N.A.

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Cash Credit (CC)	20 (Including Proposed Limit of 5 Crores)	IVR A/Stable Outlook	IVR A-/Stable Outlook	--	--

Non Fund Based Facilities	Bank Guarantee	85 (Including Proposed Limit of 29 Crores)	IVR A1	IVR A2+	--	--
Long Term	Letter Of Comfort	689.41	IVR A/Stable Outlook (RatingWithdrawn)	IVR A-/ Stable	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments.In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Fund Based- Cash Credit	--	--	--	20 (Including Proposed Limit of 5 Crores)	IVR A/Stable Outlook
2	Non- Fund Based Short Term	--	--	--	85 (Including Proposed Limit of 29 Crores)	IVR A1