Press Release

GP Petroleums Ltd

October 12, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term/Short Term Bank Facilities	220.00	IVR BB+ (Credit watch with negative implication) (IVR Double B Plus under Credit watch with negative implication)/ IVR A4+ (IVR A Four Plus)	Revised from IVR A-/Stable (IVR Single A Minus with Stable Outlook)/ IVR A2+ (IVR A Two Plus)
		220.00 (Rupees two hundred and twenty crore only)		

Details of Facilities are in Annexure 1.

Note: There has been change in analytical approach from consolidated to standalone while reviewing the rating.

Detailed Rationale

The revision in the ratingstake into account the financial restructuring in Gulf Petrochem FZC (GPF) which is the flagship company of theGP Global Group amidst global economic meltdown owing to on-going Covid-19 pandemic coupled with volatility in the oil prices and weak financial risk profile of GPPL in 1QFY21 marked by net loss and below unity interest coverage ratio. The financial restructuring in GPF was mainly due to reduction in thecredit linesextended to GPF by some of its bankers. However, the ratings continue to derives comfort from its experienced promoters, established market position of the company in industrial lubricant industry and steady demand prospects of petroleum products. However, these ratingstrengths are partially offset by its susceptibility to regulatory changes both in India and overseas, fluctuation in crude price and exposure to foreign exchange fluctuation risk.

Infomerics expects the company’s operating as well as financial performance to remain under pressure because of the weak macro-economic environment due to the ongoing pandemic in the near term. The demand recovery is likely to be very small and gradual. The ratings remain under credit watch with negative implications uncertainty in the demand scenario and uncertainty on the impact of financial restructuring in GPF on the GP Global Group as a whole. Further, the standalone performance of the company under weak demand scenario is also a key rating monitorable. Infomerics will continue to monitor the developments in these regards and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics of the company
- Improvement in working capital cycle of the company
- Improvement in the liquidity of the GP global group as a whole

Downward factor:

- In case of decline in scale of operation and/or decline in profitability impacting the debt protection metricson a sustained basis
- In case of deterioration in the capital structure of the company
- In case of elongation in the operating cycle impacting the liquidity or any adverse regulatory changes
- In case of deterioration in the liquidity position of the GP global group as a whole

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

GPPL wasestablished under the guidance of Mr. Ashok Goel and Mr. SudhirGoyel, who has over 30 years of experience in trading operations of petroleum products. The promoters are well assistedby a team of professionals having relevant industry experience in the day-to-day operations. Long-standing presence of the promoters in the industry has helped the company to establish healthy relationship with its customers and suppliers and helped it to get repetitive orders from its customers. The Company is likely to benefit from its promoter’s extensive experience going forward.

- **Leadership Position in industrial lubricant industry**

GPPL derives majority of revenue is derived from industrial lubricant, the company has established itself as a reliable and competitive supplier of industrial lubricants, especially to rubber processing players. GPPL can procure inputs at reasonable rates, enabling it to compete with public sector companies in a highly price-sensitive segment. The company will sustain its industry position over the medium term.

- **Steady demand prospects of petroleum products**

India imports a large quantity of crude; and a sharp drop in its prices has benefitted the economy by curbing the current account deficit despite the rise in the quantity of imports. The same provides ample growth opportunities to companies like GPPL to scale-up the business despite stiff competition that exists.

Key Rating Weaknesses

- **Susceptible to regulatory changes both in India and overseas**

Crude oil is an important commodity traded in the international market, and trading in crude oil is highly influenced by several government policies and regulations, which changes from time to time.

- **Fluctuations in crude prices**

The profitability is also exposed to the volatility in forex rates due to its high imports. Further, movement in Crude oil prices could lead to inventory losses for the company in a falling oil price scenario. However, the company imports are primarily backed by orders. Nonetheless, the low inventory levels reduce such exposure to some extent. Moreover, the company also has price protection clause to protect itself from crude price fluctuations

- **Weak financial performance in Q1FY21 marked by loss from operation**

GPPL has reported revenue of Rs.78.88 crore in Q1FY21, which is down y-o-y by ~41.36% from Rs.134.51 crore in Q1FY20. Further, the company has also incurred operational loss and cash loss in Q1FY21.

- **Foreign exchange fluctuation risk**

GPPL is insulated to higher extent as it is insulated against any volatility in dollar rates in case of its global business. All derivatives contracts are used to hedge physical cargoes with no speculative calls taken on currency movement. GPPL follows the policy of 100% hedging for products for which paper based trading is available. While forward covers are not available for bitumen, base oil and grease, the remaining products are 100% hedged. However, for these commodities, the price movement is not as volatile as crude. Base oil follows a 2-3 months lag effect in terms of pricing. Overall ~ 100% of the inventories are hedged / back to back contracts.

Analytical Approach: Standalone. Earlier the ratings were done on the consolidated financial of GP Global Group. However, with signs of financial stress in GPF and on request from the company (GPPL),Infomerics has now changed the analytical approach to Standalone.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Liquidity is adequate, driven by expected cash accrual of more than Rs.20crore per annum in during FY21-23 against its nil term debt obligation. Unutilised bank limit is also likely to be sufficient to meet incremental working capital requirement.

About GP Petroleums Ltd

Incorporated as SahPetroleums Ltd in 1983, the company's name was changed to GP Petroleums Ltd (GPPL) post acquisition by the Gulf Petrochem group in fiscal 2015. The company is listed on the BSE and NSE. The company designs, manufactures, and markets industrial and automotive lubricants, process oils, transformer oils, and greases. The products are sold under the IPOL brand in India and abroad. The company also has tie-up with REPSOL, S.A. for manufacturing and marketing of its products in India.The products have several latest national and international performance specifications and approvals to their credit such as API, JASO, ACEA etc. other than OEM credentials.The company's manufacturing plants in India i.e. Vasai (Mumbai) & Daman, have an annual production capacity of 80,000 KL. Also, it has an in-house Base Oil Storage facility of 15,000 KL which is one of the largest in the Indian industry and ensures consistency of quality and supply security.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited^
Total Operating Income	606.96	495.94
EBITDA	34.49	28.86
PAT	16.25	15.56
Total Debt	81.99	25.24
Tangible Net worth	208.07	219.28
EBITDA Margin (%)	5.68	5.82
PAT Margin (%)	2.67	3.13
Overall Gearing Ratio (x)	0.39	0.12

*^Detailed schedule not available*Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:CRISIL has moved the rating to issuer non cooperating category vide its press release dated August 14,2020 due to lack of cooperation from the client and in absence of information.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based/ Non-Fund Based Facilities	Long Term/ Short Term	220.00	IVR BB+ (Credit watch with negative implication) / IVR A4+	IVR A-/ Stable Outlook/ IVR A2+ (July 22,2020)	-	-

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits/ Short Term Non Fund Based Limits	-	-	-	220.00	IVR BB+ (Credit watch with negative implication)/ IVR A4+