GP Petroleums Ltd

July 22, 2020

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long Term/ Short Term Bank Facilities	220.00	IVR A-; Stable / IVR A2+ (IVR Single A Minus with Stable Outlook/ IVR A Two Plus)	Assigned
	Total	**220.00 (Rupees Two hundred and twenty crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of GP Petroleums Limited (GPPL) derive strength from the Gulf Petroleum group, which extends operational and managerial backing to the company. Further, the rating derives comfort from its experienced promoters group, diversified revenue stream with geographical diversification of the group, prudent risk management practices, established market position of the company in industrial lubricant industry, healthy financial risk profiles of both GPPL and GP group, satisfactory capital structure with robust net worth and debt protection metrics of GPPL and GP group and steady demand prospects of petroleum products. However, these rating strengths are partially offset by its susceptibility to regulatory changes both in India and overseas, thin profitability, fluctuation in crude price and foreign exchange fluctuation risk.

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 credit profile of the group company

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 credit profile of the group company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Key Rating Strengths

- **Experienced promoters group**

The group was established under the guidance of Mr. Ashok Goel and Mr. Sudhir Goyel, who has over 30 years of experience in trading operations of petroleum and petrochemical products. The promoters are well assisted by 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 group to establish healthy relationship with its customers and suppliers and to get repetitive orders from its customers. The group will continue to benefit from its promoter's extensive experience going forward.

- **Diversified revenue stream with geographical diversification**

The group has diversified product portfolio, which reduces the vulnerability to the demand risks associated with a single product. With presence in multiple segments, including trading, oil storage terminals, bunkering, shipping, and manufacturing of lubricants, grease and bitumen, the group has healthy geographical diversification with presence in the Middle East, Africa, India, Singapore, and Europe. Established relationships with major suppliers and bulk purchases at group level enhance ability to procure efficiently. Moreover, the group's customers include Automotive and industrial lubricant manufacturers, Marine & Shipping Industry, many other speciality product manufacturers and various users of liquid gases. The group's customer base with its exposure to many industries and companies in different sectors is fairly diversified.

- **Prudent risk management practices**

The group follows a strong risk management policy to mitigate its exposure to volatility in the prices of crude oil and related products. The hedging operations are centralised and managed from the UAE for the entire group.

- **Association with parent and operational synergies**

GPPL was acquired by the Gulf Petrochem group in July 2014 as a strategic move towards expanding the latter's operations in India. Currently, the group has trading, bunkering, storage terminal, and bitumen manufacturing businesses in India through other entities. Given the superior bargaining power of the group, GPPL has benefitted significantly in terms of lower procurement cost. Also, the company now has access to the group's customer and supplier networks in the Middle East, Africa, and Europe. Through its association with the group, GPPL has entered into a strategic alliance with Repsol, S.A. of Spain for manufacturing and sales of Repsol's premium lubricants across India. Business risk profile will benefit significantly from association with both the Indian and global operations of the Gulf Petrochem group.

- **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. Due to its association with Gulf Petrochem FZC (GPFZCH) and the group's procurement capabilities, GPPL is able to 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.

- **Healthy financial profile of GPPL and GP Group**

The total operating income of the group has witnessed an increasing trend with a CAGR of ~29% during CY16-CY18 and stood at Rs.35571.31 crore in CY18as compared to Rs.22372.83crore in CY17. The group reported revenue of Rs.43507.62 crore, registering a growth of ~22% y-o-y as per CY19 provisional numbers. The growth in the revenue was mainly driven by continued rise in bunkering operations and distillates trading.

The total operating income (TOI) of GPPL has witnessed an erratic trend over the last four years (FY17-FY20) with a decline from Rs.606.96 crore in FY19 to Rs.495.94 crore in FY20. The decline in sales was driven by decline in automobiles sales leading to decline in sales of automobile lubricant and impact of corona virus in last week of March, 2020. However, the company is now focusing more on sale of industrial lubricant which has relatively stable demand.

- **Satisfactory capital structure with robust net worth and debt protection metrics of GPPL and group**

The capital structure of the group remained satisfactory over the years marked by its robust net worth base. The net worth stood at ~Rs.5220 crore as on December 31,2019 (~Rs.4658 crore as on December 31,2018). The overall gearing was moderate at 1.31x as on December 31, 2018 as compared to 1.27x as on December 31, 2017. The marginal moderation in overall gearing was due to higher utilisation of working capital limit as on the account closing date. However, the Overall gearing ratio improved to 1.12x as on December 31, 2019 (Prov.) on account of scheduled repayment of term loans, lower utilisation of bank borrowing and accretion of profit to net worth. Total indebtedness of the company as reflected by TOL/TNW also improved from 1.73x as on Dec 31, 2018 to 1.61x as on December 31, 2019 driven by reduction in current liability and steady accretion of profit to net worth. Further, the interest coverage remained strong over the years and stood satisfactory at 2.46x in CY19 (provisional).

The capital structure of GPPL remained satisfactory over the years marked by its comfortable overall gearing ratio. The overall gearing was comfortable at 0.12x as on March 31, 2020 as compared to 0.39x as on March 31, 2019. The improvement in gearing is due to lower utilisation of bank borrowings. Total indebtedness of the company as reflected by TOL/TNW also remained comfortable at 0.35x as on March 31, 2020. Further, the interest coverage remained healthy over the years and stood satisfactory at 4.04x in FY20.

- **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 traders like Gulf Petrochem Group 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.

- **Thin profitability**

The profit margins of the GP group remained thin mainly due to its limited value additive nature of the business. The EBITDA margin of the company hovered in the range of ~2.2%-3.8% and the PAT margin hovered in the range of ~1.07%-1.62% during CY16-CY19. However, with steady increase in revenue from bunkering and distillates trading in overall revenue mix the operating profit margin witnessed moderation in CY19. Further, increase in interest expenses attributable to increase in cost of fund also resulted in moderation in PAT margin.

The profit margins of GPPL also remained low with the EBITDA margin of the company hovered in the range of ~5.68%-6.68% and the PAT margin hovered in the range of ~2.67%-4.11% during FY17-FY20.

- **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

- **Foreign exchange risk**

Majority of transactions are in USD or AED. The group is insulated to higher extent as UAE follows the policy of fixed pegging against dollar. As a result, the group is insulated against any volatility in dollar rates in case of its global business. Trading and all derivatives contracts are used to hedge physical cargoes with no speculative calls taken on currency movement. The group 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: Consolidated. The ratings of GPPL factor in the support from the Gulf Petroleum group, which extends operational and managerial backing to the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity of Group: Strong

Gulf Petrochem Group has earned a GCA of Rs.585.39 crore compared to its debt obligation of Rs.229.08 crore in CY19.The liquidity profile is supported by sizeable free cash balances along with unutilised working capital borrowing limits. The group has strong healthy liquidity marked by its strong accruals against its repayment obligations. Further, the average utilisation of its working capital limit also remained comfortable at ~47% in the last 4 quarters ended December 2020 indicating an adequate liquidity buffer. Moreover, the group is expected to generate cash accruals to the tune of Rs.750-835 crore as against its debt servicing obligation of ~Rs.156-175 crore during CY21-22.

Liquidity of GPPL: Adequate

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

About GP Petroleums Ltd

Incorporated as Sah Petroleums 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.

About Gulf Petrochem FZC

Gulf Petrochem FZC, a part of Gulf Petrochem Group was established in 1998 by Mr. Ashok Goel and Mr. Sudhir Goyel as a Free Zone Establishment in United Arab Emirates (UAE). It was reconstituted as a Free Zone Company (FZC) in 2006 and operates under an industrial licence issued by the Hamriyah Free Zone Authority (Sharjah). The company is engaged in storing, refining and trading in petroleum products and also manufactures grease. The promoter family has presence in the petroleum and petroleum-related businesses across the world.

Financials: Combined **(Rs. crore)**

For the year ended* / As On	31-12-2018	31-12-2019
	Combined	Combined
	Audited	Provisional
Total Operating Income	35571.31	43507.62
EBITDA	1029.98	962.89
PAT	472.15	437.26
Total Debt	6084.34	5821.99
Tangible Net worth	4658.10	5220.14
EBITDA Margin (%)	2.90	2.21
PAT Margin (%)	1.33	1.07
Overall Gearing Ratio (x)	1.31	1.12

**Classification as per Infomerics' standards.*

Financials (Standalone of GPPL) **(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: Nil.

Any other information: Nil

Rating History for last three years:

Sr.	Name of	Current Rating (Year 2020-21)	Rating History for the past 3 years

No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based/ Non-Fund Based Facilities	Long Term./ Short Term	220.00	IVR A-/ Stable Outlook/ IVR A2+	-	-	-

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 A- / Stable Outlook/ IVR A2+