Press Release

GOCL Corporation Limited

May 24, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund-Based Facilities	20.00	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Revised	Simple
Long Term Non-Fund Based Facilities	1650.00*	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Revised	Simple
Short Term Non-Fund Based Facilities	61.00	IVR A2+ (IVR A Two Plus)	Revised	Simple
Total	**1731.00**	**(Rupees One Thousand Seven Hundred and Thirty-One Crore Only)**		

**USD value 200 million*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of GOCL Corporation Limited is on account of decline in operating profitability margin and deterioration in capital structure and debt coverage indicators at consolidated level in FY22 and 9MFY23 as well as increase in exposure to group/related entities.

The ratings continue to factor in the company`s long track record of operations, strong promoter group and experience management, demonstrated support from Hinduja Group, moderate capital structure, stable income generation through the real estate division in the form of lease rentals, good order book position and government opportunities.

However, the ratings strengths are partially offset by low profitability and weak debt coverage indicators at consolidated level, high exposure to group/related entities, customer concentration risk and vulnerability of profitability to fluctuations in raw material price.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the revenue & EBITDA margin while improving the debt protection metrics.

Downward Factors

- Any further decline in revenue and/or EBITDA margin leading to a decline in debt protection metrics.

List of Key Rating Drivers with Detailed Description

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 looked after by Mr. Pankaj Kumar, who is the Managing Director. 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. Recently, the government announced 'Vision 2030 for Hyderabad' aimed at creating a vibrant business ecosystem.

Moderate capital structure

The Overall Gearing Ratio (GOCL Conso.) deteriorated from 0.96 times as on 31-Mar-2021 to 1.39 times as on 31-Mar-2022 on account increase in total term liability; which is Rs. 1609.65 Crore as on 31-Mar-2022 as against Rs. 1117.68 Crore as on 31-Mar-2021.

The total indebtedness (GOCL Conso.) as reflected by TOL/TNW is 1.82x as on 31-Mar-22 (1.11x as on 31-Mar-21). This deteriorated on account of increase in total term liabilities as well as other current liabilities.

Majority of the term loan is with the subsidiary, HGHL Holding Limited of Rs. 1491.20 Crore as on Mar 31st, 2022 (Rs. 1078.33 crore as on March 31, 2021).

Good Order Book position

The Consolidated (GOCL + IDL) order book position hold good as on date. The orders on hand as on date aggregate to Rs. 36 Crore (GOCL – Standalone). However, the orders on hand on a consolidated level as on April 13, 2023 aggregate to Rs. 599 crore (GOCL+IDL).

Government opportunities

The review of mining in India is underway by the Government. Under Atmanirbhar Bharat Abhiyan initiatives, the Government announced reforms in the mining sector. Under this, the government will auction as many as 500 mineral mines, remove the distinction between captive and non-captive mines, and rationalize duties / taxes. It also plans to auction bauxite and coal at the same time, a move that will benefit aluminium companies. Removal of distinction between captive and non-captive mines will bring a level playing field to the industry and is a major step forward to improve the overall availability of minerals. Moreover, rationalization of stamp duty payable at the time of award of mining leases will also provide the much-needed relief to the highly taxed Indian mining sector.

B. Key Rating Weaknesses

Low profitability

TOI of GOCL Corporation Limited (GOCL) at consolidated level has increased Y-o-Y by 19% in FY22 i.e. from Rs. 430.58 Crore in FY21 to Rs. 514.24 Crore in FY22. This increased majorly because of increase in revenue from energetics and explosives segment.

The profitability margins (GOCL Conso.) marked by EBITDA margin declined by 173bps in FY22 i.e. from 5.68% in FY21 to 3.95% in FY22. The operating margins declined due to increase in raw material cost, power and fuel cost. However, PAT margin increased by 1416bps in FY22 i.e. from 14.13% in FY21 to 28.29% in FY22. This increased because of fair value gain on derivative assets of Rs.127.61 crore in FY22.

Gross Cash Accrual (GOCL Conso.) decreased Y-o-Y by 31% i.e. from Rs. 84.18 Crore in FY21 to Rs. 58.46 Crore in FY22. This decreased because of decline in overall profitability. On a consolidated basis, the company has reported operating loss and PAT of Rs.17.87 crore and Rs. 197.39 crore respectively on total operating income of Rs. 678.98 crore in 9MFY23 as against operating loss and PAT of Rs.0.55 crore and Rs. 32.83 crore respectively on total operating income of Rs. 369.42 crore in 9MFY22.

Weak debt coverage indicators

The interest coverage ratio was low, and it decreased from 0.46x in FY21 to 0.36x in FY22, but the debt service coverage ratio has increased and remained moderate at 4.03x in FY22 as against 2.44x in FY21. However, the Company has utilised its recoveries from loans advanced to Group Companies to service its debt obligations apart from generation of internal accruals. Total Debt to GCA deteriorated to 27.28 years in FY22 (FY21: 13.23) due to increase in debt and decline in GCA.

High exposure to group/related entities

The company's exposure to group/related entities at consolidated level has increased significantly from Rs.1406 crore as on March 31, 2021 to Rs.2186 crore as on March 31, 2022. It mainly includes loans of Rs.1515.85 crore as on March 31, 2022 extended to 57 Whitehall Investments SARL Luxemburg by its subsidiary, HGHL Holdings Ltd. which also holds 10% stake in this company, which in-turn has invested in the downstream joint venture project which is engaged in the development of a residential and hospitality project at UK.

Customer Concentration risk

On Standalone basis, the Company's top four customers accounted for around 45% in FY22 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, Russia-Ukraine war 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: Consolidated

For arriving at the ratings, Infomerics has consolidated the business and financial risk profiles of GOCL Corporation Limited, HGHL Holding Limited, IDL Explosives Limited and APDL Estates Limited. The consolidation is in the view of common management and financial linkages.

List of the entities considered for consolidation is furnished in Annexure II

Extent of Consolidation: Full

Applicable Criteria:

- Rating Methodology for Manufacturing Facilities
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria of assigning Rating Outlook
- Criteria for consolidation of companies

Liquidity – Adequate

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. While there are no long-term debt obligations in GOCL (standalone), HGHL Holdings Ltd. has to service debt of USD 31.25 mn in June, 2023 and the same amount in December, 2023. HGHL Holdings Ltd. expects to receive timely payments from 57 Whitehall Investments SARL Luxemburg to support debt servicing for SBLC facility which is also backed by shortfall guarantee by Gulf Oil International Ltd., the parent of Gulf Oil Lubricants India Ltd. The company maintains moderate cash and bank balance to meet its liquidity requirements. As on March 31, 2022, the company (GOCL - Consolidated) had unencumbered cash & balance of Rs. 48.20 Crore. The fund-based utilization of working capital limits remained low at 36% and for non-fund based limits at 13.92 % during the 12 months ended March, 2023, leading to a moderate liquidity cushion. The current ratio of (GOCL – Consolidated) is 1.99x as on 31-Mar-2022. The cash operating cycle in FY22 is 73 days (70 days in FY21).

About the Company

GOCL Corporation Limited (GOCL), formerly Gulf Oil Corporation Limited, was incorporated in 1961 as Indian Detonators Ltd. (IDL), in Hyderabad. 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. The Company's equity shares are listed on the Bombay Stock Exchange (BSE) since 1963 and on the National Stock Exchange (NSE) since 2007. GOCL is a multi-division, multi-location Company, a leader in businesses in energetics, commercial explosives and realty. It has 3 wholly owned subsidiaries – IDL Explosives Limited and APDL Estates Ltd. in India and HGHL Holdings Limited in UK. GOCL is a Star House exporter of energetic and commercial explosive products to over 20 countries.

Financials (Consolidated):

(Rs. Crore)

For the year ended*/ As on	2021 Audited	2022 Audited
Total Operating Income	430.58	514.24
EBITDA	24.46	20.32
PAT	78.70	176.10
Total Debt	1113.73	1594.97
Tangible Net Worth	1158.36	1146.04
EBITDA Margin (%)	5.68	3.95
PAT Margin (%)	14.13	28.29
Overall Gearing Ratio (x)	0.96	1.39

**Classification as per Infomerics` standards*

Financials (Standalone):

(Rs. Crore)

For the year ended*/ As on	2021 Audited	2022 Audited
Total Operating Income	125.86	152.36
EBITDA	23.77	30.53
PAT	49.04	47.70
Total Debt	2.86	2.87
Tangible Net Worth	388.99	471.78
EBITDA Margin (%)	18.88	20.04
PAT Margin (%)	30.20	25.77
Overall Gearing Ratio (x)	0.01	0.01

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Feb 25, 2022)	Date(s) & Rating(s) assigned in 2020-21 (Nov 27, 2020)	Date(s) & Rating(s) assigned in 2019-20 (Nov 04, 2019)
1.	Cash Credit	Long Term	20.00	IVR A-/Stable	IVR A/ Stable	IVR A /CWDI*	IVR A /Stable
2.	SBLC	Long Term	1650.00	IVR A-/Stable	IVR A/ Stable	IVR A /CWDI*	IVR A /Stable
3.	LCs/BGs	Short Term	61.00	IVR A2+	IVR A1	IVR A1 /CWDI*	IVR A1

**CWDI: Credit Watch with Developing Implications*

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	20.00	IVR A-/ Stable
SBLC	-	-	-	1650.00	IVR A-/ Stable
LCs/BGs	-	-	-	61.00	IVR A2+

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidate Approach
GOCL Corporation Limited	Full Consolidation
IDL Explosives Limited	Full Consolidation
HGHL Holdings Limited	Full Consolidation
APDL Estates Limited	Full Consolidation

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-GOCL-may23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.