GOCL Corporation Limited [GOCL]

February 25, 2022

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	Complexity Indicator
1	Long Term Fund based – Cash Credit	20.00*	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]	Rating Reaffirmed; removed from Credit Watch with Developing Implication	Simple
2	Short Term Non-Fund based – Bank Guarantee/ Letter of Credit	65.00**	IVR A1 [IVR A one]	Rating Reaffirmed; removed from Credit Watch with Developing Implication	Simple
3	Long Term Non-Fund based – Stand-by Letter of Credit	1490.76***	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]	Rating Reaffirmed; removed from Credit Watch with Developing Implication	Simple
	Total	**1575.76**			

** Including proposed limit of INR5.00 Crore*
*** Including proposed limit of INR29.00 Crore*
****USD value 200 million*

Details of facilities are in Annexure 1

Rating Rationale

The aforesaid rating reaffirmation to the bank facilities of the entity derives strength from Long track record of operations, Strong promoter group and experienced management, Demonstrated support from Hinduja group, Stable income generation through the real estate division in the form of lease rentals, Strong Gearing ratio, Good Order Book position and Government opportunities. The rating is however constrained by Moderate revenue growth &

low profitability (on consolidated basis), Weak debt coverage indicators, Customer concentration risk and Vulnerability of profitability to fluctuations in raw material price.

Key Rating Sensitivities:

- **Upward Rating Factor:**

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

- **Downward Rating Factor:**

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

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-today 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. Recently, the government announced 'Vision 2030 for Hyderabad' aimed at creating a vibrant business ecosystem.

Strong Gearing ratio

The Company (GOCL-Standalone) does not have any borrowings except working capital facilities. Thus, its overall gearing ratio stands strong at 0.01 as at March 31, 2021. However, on consolidated basis, the overall gearing ratio of the Company is moderately comfortable and improved from 1.32x as at FY20 to 0.96x as at FY21 due to decreased debt level.

Good Order Book position

The Company has a good order book position as on date. The orders on hand as on date aggregate to INR 121 Crore (GOCL – Standalone).

However, the orders on hand on a consolidated level as on date aggregate to INR 820 Crore (GOCL – Consolidated).

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.

Key Rating Weaknesses

Moderate revenue growth & low 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 ~482 Crore. However, the turnover of the Company has decreased from INR ~532 Crore in FY19 to INR ~498 Crore in FY19, indicating a growth rate of -6%, further a declined by 17% to INR ~415 Crore in FY21. The EBITDA margin was 6.01% in FY19 & 3.07% in FY20. However, it deteriorated to 2.28% in FY21 due to an increase in raw material consumption in FY21. The Profit from operations (Standalone) has been negative, however improved from INR -6.01 Crore in FY20 to INR -4.39 Crore in FY21. The PAT margin has improved from 8.87% in FY20 to 8.87% in FY21. High PAT margin in FY21 can be attributed to low interest expense and availing of lower tax rate benefit.

Weak debt coverage indicators

The interest coverage ratio was low, and it decreased from 0.99x in FY20 to 0.18x in FY21, but the debt service coverage ratio has increased and remained comfortable 2.40x. However, the Company has utilised its recoveries from loans advanced to Group Companies to service its debt obligations apart from generation of internal accruals.

Customer Concentration risk

On Standalone basis, the Company's top five customers accounted for around 56% in FY21 (60% in FY20) 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 (https://www.infomerics.com/rating-methodology-detail/manufacturing-companies)
- Financial Ratios & Interpretation (Non-Financial Sector) (https://www.infomerics.com/rating-criteria-detail/financial-ratios--implication)

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. The company maintains moderate cash and bank balance to meet its liquidity requirements. As at March 31, 2021, the company (GOCL - Consolidated) had cash & balance of INR 42.13 Crore. The utilization of working capital limits remained low at 21.71 %during the 12 months ended December 31, 2021, leading to a comfortable liquidity cushion.

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 multidivision, multi-location Company, a leader in businesses in energetics, commercial explosives and realty. It has 2 wholly owned subsidiaries – IDL Explosives Limited 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)

INR in Crore

For the year ended / As on	31-Mar-20 Audited	31-Mar-21 Audited
Total Operating Income	498.77	415.58
EBITDA	15.30	9.46
PAT	49.60	78.70
Total Debt	1192.70	1111.46
Tangible Net Worth	906.57	1158.97
EBIDTA Margin (%)	3.07	2.28
PAT Margin (%)	8.87	14.13
Overall Gearing ratio (x)	1.32	0.96

Classification as per Infomerics' standards

Financials (Standalone) **INR in Crore**

For the year ended / As on	31-Mar-20 Audited	31-Mar-21 Audited
Total Operating Income	96.28	97.70
EBITDA	-6.01	-4.39
PAT	2.32	49.04
Total Debt	5.37	2.86
Tangible Net Worth	372.97	388.99
EBIDTA Margin (%)	-6.24	-4.50
PAT Margin (%)	2.10	30.20
Overall Gearing ratio (x)	0.01	0.01

Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Nov.27,2020)	Date(s) & Rating(s) assigned in 2019-20 (Nov. 04,2019)	Date(s) & Rating(s) assigned in 2018-19 (Apr. 25,2018)
Cash Credit	Long Term	20.00	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]	IVR A/ Credit Watch with Developing Implications; [IVR Single A Credit Watch with Developing Implications]	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	IVR A- /Stable Outlook (IVR Single A Minus with Stable Outlook)
Letter of Credit/ Bank Guarantee	Short Term	65.00	IVR A1 [IVR A one]	IVR A1/ Credit Watch with Developing Implications [IVR A One; Credit Watch with Developing Implications]	IVR A1 (IVR A One)	IVR A2+ (IVR A Two Plus)
Stand-by Letter of Credit	Long Term	1490.76*	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]	IVR A/ Credit Watch with Developing Implications; [IVR Single A Credit Watch with Developing Implications]	--	--
	Total	**1575.76**				

**USD value 200 million*

Name and Contact Details of the Rating Analysts:

Name: Mr. Jyotiraditya Singh Tel: (022) 62396023	Name: Mr. Prakash Kabra Tel: (022) 62396023

Email: jyotiraditya.singh@infomerics.com	Email: prakash.kabra@infomerics.com

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 Facility – Cash Credit	-	-	-	20.00	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]
Short Term Non-Fund Based Facility	-	-	-	65.00	IVR A1 [IVR A one]

– Bank Guarantee/Letter of Credit					
Long Term Non-Fund based – Stand-by Letter of Credit	-	-	-	1490.76	IVR A/ Stable Outlook. [IVR Single A with Stable Outlook]

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
GOCL Corporation Limited	Full Consolidation
IDL Explosives Limited	Full Consolidation
HGHL Holding Limited	Full Consolidation

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/GOCL-lenders-feb22.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.