Press Release

GOCL Corporation Limited [GOCL]

November 27, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Long Term Fund based – Cash Credit	20.00*	IVR A/ Credit Watch with Developing Implications; [IVR Single A Credit Watch with Developing Implications]	Rating Re-affirmed with Outlook revised to Credit Watch with Developing Implications
2	Short Term Non-Fund based – Bank Guarantee/ Letter of Credit	85.00**	IVR A1/ Credit Watch with Developing Implications [IVR A One; Credit Watch with Developing Implications]	Rating Re-affirmed, Credit Watch with Developing Implications
3	Long Term Non-Fund based – Stand-by Letter of Credit	1120.23***	IVR A/ Credit Watch with Developing Implications; [IVR Single A Credit Watch with Developing Implications]	Assigned
	Total	**1225.23**		

** Including proposed limit of INR5.00 Crore*
*** Including proposed limit of INR29.00 Crore*
****USD value 150 million*

Details of facilities are in Annexure 1

Rating Rationale

GOCL's rating outlook has been revised to Credit Watch with Developing Implications on account of COVID-19 impact on the business and financial performance in H1FY2021. Infomerics shall closely monitor the quarterly performance to assess the overall impact on the credit matrices going forward.

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

HII, 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 in 1918. 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.

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

The Company through its UK based subsidiary HGHL Holdings Limited (HGHL) was holding a strategic beneficial interest of 10% in Houghton International Inc., USA, a subsidiary of the Hinduja Group's Gulf Oil International.

Houghton International, had in the month of April 2017 entered into a definitive agreement to merge with Quaker Chemical (NYSE: KWR) to create a global leader in the space of process fluids, chemical specialties, and technical expertise to the global primary metals and metal working industries. Closing of the Combination of Houghton International with Quaker Chemical Corporation became effective on August 1, 2019. Following the closing, the Company is a beneficial holder of 427,395 shares of Common Stock in Quaker.

This represents approx. 2.40 % of the combined entity. In addition, there was an adjusted cash consideration of USD 12.20 million before deduction of escrow amount. The attributable investment value for the Company at Closing was approximately USD 92.5 million, i.e. INR 638 Crore. The initial investment was GBP 1,00,000 by GOCL through its wholly owned subsidiary HGHL. As at end of September 2020, HGHL Holdings Limited divested a beneficial interest equivalent of 2,00,000 common stock of Quaker Chemical Corp, USA and realized a gain of USD 38 Million (INR 281 crores approximately). Thus the Company and its overseas subsidiary HGHL have substantially benefitted out of the said investment.

The Hinduja conglomerate will be the largest shareholder in the combined public company. The combined entity will continue to be listed on the New York Stock Exchange and continues trade under the “KWR” ticker symbol.

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, 2020. However, on consolidated basis, the overall gearing ratio of the Company is moderately comfortable but deteriorated from 0.57x as at FY19 to 1.32x as at FY20 due to increased 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 52 Crore. These constitute 54% of FY20 turnover (GOCL – Standalone). However, the orders on hand on a consolidated level as on date aggregate to INR 496 Crore. These constitute 99.44% of FY20 turnover (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 aluminum 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 ~500 Crore. However, the turnover of the Company has increased from INR ~483 Crore in FY18 to INR ~532 Crore in FY19, indicating a growth rate of 10%, thereafter declined by 6% to INR ~499 Crore in FY20. The EBITDA margin was 5.61% in FY18 & 6.01% in FY19. However, it deteriorated to 3.07% in FY20 due to an increase in raw material consumption in FY20. The Profit from operations has been negative, however improved from INR -15.10 Crore in FY19 to INR -7.36 Crore in FY20. The PAT margin has improved from 6.84% in FY19 to 8.87% in FY20; thereby resulting into an increased EPS of INR 10.00 for FY20 from INR 8.18 for FY19. High PAT margin in FY20 can be attributed to low interest expense and availing of lower tax rate benefit.

Weak debt coverage indicators

The interest coverage ratio was low, although improved from 0.85x in FY19 to 1.18x in FY20, but the debt service coverage ratio has been below Unity. 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 60% in FY20 (77% in FY19) 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: 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, 2020, the company (GOCL - Consolidated) had cash & balance of INR 38.41 Crore. The utilization of working capital limits remained low at 30.73%% during the 12 months ended September 30, 2020, leading to a comfortable liquidity cushion. The Current ratio is comfortable & improved at 1.72x & Quick ratio at 1.27 as at the end of FY20.

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 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-19 Audited	31-Mar-20 Audited
Total Operating Income	532.08	498.77
EBITDA	31.96	15.30
PAT	40.56	49.60
Total Debt	537.98	1192.70
Tangible Net Worth	938.70	906.20
EBIDTA Margin (%)	6.01	3.07
PAT Margin (%)	6.84	8.87
Overall Gearing ratio (x)	0.57	1.32

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: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (Nov. 04, 2019)	Date(s) & Rating(s) assigned in 2018-19 (Apr. 25, 2018)	Date(s) & Rating(s) assigned in 2017-18
Cash Credit	Long Term	20.00	IVR A/ Credit Watch with Developing Implications	IVR A/ Stable Outlook	IVR A-/ Stable Outlook	--
Letter of Credit/ Bank Guarantee	Short Term	85.00	IVR A1/ Credit Watch with Developing Implications	IVR A1	IVR A2+	--
Stand-by Letter of Credit	Long Term	1120.23*	IVR A/ Credit Watch with Developing Implications	--	--	--
	Total	**1225.23**				

**USD value 150 million*

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Amount (INR Crore) (Sanctioned)	Rating Assigned/ Outlook
Long Term Fund based – Cash Credit	--	--	--	20.00*	IVR A/ Credit Watch with Developing Implications
Short Term Non-Fund based – Bank Guarantee/ Letter of Credit	--	--	--	85.00**	IVR A1/ Credit Watch with Developing Implications
Long Term Non-Fund based – Stand-by Letter of Credit	--	--	--	1120.23***	IVR A/ Credit Watch with Developing Implications

* *Including proposed limit of INR 5.00 Crore*
** *Including proposed limit of INR 29.00 Crore*
****USD value 150 million*

Annexure II: Facility wise lender details

https://www.infomerics.com/admin/prfiles/GOCL-Corporation-27nov20.pdf