Press Release

Gulf Petroleum FZC

May 27, 2020

Facilities	Amount (Rs. crore)	Rating	Rating Action
Issuer Rating	NA	IVR A- [Is] /Stable Outlook (IVR Single A Minus [Is] with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The rating of Gulf Petroleum FZC (GPF) draws comfort from experienced promoters group, diversified revenue stream with geographical diversification, prudent risk management practices, continuous increase in scale up of operations, satisfactory capital structure with robust net worth and debt protection metrics and steady demand prospects of petroleum products. However, the ratings are partially offset by its susceptibility to regulatory changes both in India and overseas, low profitability, fluctuation in crude price and foreign exchange fluctuation risk.

Key Rating Sensitivities:

Upward Factor:

- In case of growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- In case of improvement in the capital structure and debt protection metrics
- In case of improvement in working capital cycle

Downward factor:

- In case of decline in scale of operation and/or decline in profitability impacting the debt protection metrics on a sustained basis
- In case of deterioration in the capital structure
- In case of elongation in the operating cycle impacting the liquidity or any adverse regulatory changes

List of Key Rating Drivers with Detailed Description

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 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 helped the group to get repetitive orders from its customers. The group is likely to benefit from its promoters 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 giant petroleum products trading companies. 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.

- **Continuous increase in scale up of operations**

The total operating income of the group has witnessed an increasing trend with a CAGR of ~28.7% during CY16-CY18 and stood at Rs.35571.31 crore in CY18 as compared to Rs.22372.83 crore in CY17. The group reported revenue of Rs.43507.62 crore, registering a growth of 22.31% 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.

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

The capital structure of the company 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, Overall gearing ratio improved to 1.12x as on December 31, 2019 (Prov.) on account of utilisation of bank borrowings, scheduled repayment of term loan 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 decrease 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).

- **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.

- **Low profitability**

The profit margins of the group remained low mainly due to its limited value additive nature of the business. The profitability could be further impacted by the proportion of low-margin products to high-margin products in the complete product portfolio in addition to any incidental expenses that may further reduce the profitability. 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.

- **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

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: 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.

About the Company

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 (Consolidated) **(Rs. crore)**

For the year ended* / As On	31-12-2018	31-12-2019
	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	5220.41
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.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

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 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Issuer Rating	NA	NA	IVR A-[Is]/ Stable Outlook	-	-	-

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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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Mr.AvikPodder Tel: (033) 46022266 Email: apodder@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

Press Release

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Issuer Rating	-	-	-	NA	IVR A- [Is]/ Stable Outlook