Rating Advisory

August 04, 2020 | Mumbai

GP Petroleums Limited

Advisory as on August 04, 2020

This rating advisory is provided in relation to the rating of GP Petroleums Limited

The key rating sensitivity factors for the rating include:

Downside scenario:
* GPFZC's rating weakens by one notch or more
* Financial risk profile affected by large, debt-funded capex
* A stretch in the working capital cycle

Upside scenario:
* Improvement in GPFZC's rating by one notch or more
* Substantial increase in revenue and profitability and a steady working capital cycle

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from GP Petroleums Limited (GPPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If GPPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt.Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71dt.June 30,2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the company
Incorporated as Sah Petroleums Ltd in 1983 and renamed in 2015 post-acquisition by GPFZC, GPPL manufactures industrial and automotive lubricants, process oils, transformer oils, and grease under the IPOL brand for sale in India and abroad.

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Rating Rationale

July 31, 2020 | Mumbai

GP Petroleums Limited

Ratings placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	**Rs.220 Crore**
Long Term Rating	**CRISIL BBB+ (Placed on 'Rating Watch with Negative Implications')**
Short Term Rating	**CRISIL A2 (Placed on 'Rating Watch with Negative Implications')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its ratings on the bank loan facilities of GP Petroleums Limited (GPPL; part of the GP Global group) on **'Rating Watch with Negative Implications'**.

The rating action follows a similar action on the outstanding ratings of GPPL's ultimate parent Gulf Petrochem FZC (GPFZC; 'CRISIL BBB+/CRISIL A2/Watch Negative') as the ratings of GPPL centrally factors distress support from the parent. GPFZC's long-term rating is placed on watch following an exchange notification by GPPL dated July 27, 2020, and another press release by the GP Global group mentioning of a financial restructuring exercise being undertaken.

The media statement mentions that the group is undertaking the restructuring exercise to combat the challenges that have arisen due to a global economic meltdown amid the ongoing Covid-19 pandemic and the exercise will be completed in next few months. The media statement further mentions group's tightening liquidity position and full support not being available from a few financial institutions. CRISIL believes that GPFZC's liquidity profile is weakening and financial flexibility is constrained which are likely to have a negative impact on its credit profile.

CRISIL is awaiting further clarity and details of the financial restructuring exercise. CRISIL will resolve the rating watch and take a final rating action after having clarity on the financial restructuring plan, current liquidity position and its impact on the credit profile of GPFZC.

Further, GPPL has also availed moratorium from lenders for deferment of interest payments as a part of Covid-19 Regulatory Package provided by the Reserve Bank of India (RBI).

The ratings continues to reflect GPPL's established market position in the industrial lubricant segment and healthy financial risk profile because of sound capital structure and debt protection metrics. These strengths are partially offset by a modest scale of operations in the intensely competitive lubricants industry, and working capital-intensive operations.

Analytical Approach

The ratings factor in the distress support expected from the ultimate parent, GPFZC, which extends operational and managerial backing to the company.

Key Rating Drivers & Detailed Description

Strengths:

*** Association with parent and operational synergies**

GPPL was acquired by the GP Global 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 SA of Spain for manufacturing and sales of the latter's premium lubricants across India. The business risk profile will benefit significantly from association with both the Indian and global operations of the GP Global group.

*** Strong position in the industrial lubricant industry**

As most of the revenue is derived from the lubricant segment, the company has established itself as a reliable and competitive supplier of industrial lubricants, especially to rubber processing players. Due to its association with GPFZC 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 should sustain its industry position over the medium term.

*** Healthy financial risk profile:**

A large networth of Rs 219 crore, led to a strong total outside liabilities to tangible networth ratio of 0.39 time, as on March 31, 2020. The financial risk profile is expected to be sustained over the medium term due to absence of debtfunded capital expenditure and healthy cash accrual.

Weaknesses:

*** Modest scale of operations**

Turnover was modest at Rs 500 crore in fiscal 2020 in an intensely competitive segment. The company derives most of its revenue from sale of industrial and automotive lubricants, which are sold under its established IPOL brand. Despite the established brand, there is competition from other large players such as Indian Oil Corporation Ltd and Hindustan Petroleum Corporation Ltd, as well as from the unorganised segment. Hence, revenue declined by 19% in fiscal 2020 over the previous fiscal.

Liquidity Stretched

GPPL has availed the moratorium as per the RBI regulatory package, and the liquidity of the GP Global group is likely to be stretched, as mentioned in the group's media statement.

Rating Sensitivity Factors

Upward Factors

* Improvement in GPFZC's rating by one notch or more

* Substantial increase in revenue and profitability and a steady working capital cycle.

Downward Factors

* GPFZC's rating weakens by one notch or more

* Financial risk profile affected by large, debt-funded capex* A stretch in the working capital cycle.

About the Group

GPFZC, flagship entity of the GP Global group, promoted by Mr Ashok Goel and Mr Sudhir Goel, was established in 1998 as a Free Zone Establishment (FZE) and was reconstituted as a Free Zone Company (FZC) in 2006. It operates in the United Arab Emirates under an industrial licence issued by the Hamriyah Free Zone Authority (Sharjah). The company trades in, stores, and refines oil; and manufactures grease. The promoter family has presence in the petroleum and petroleum-related businesses across the world.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs.Crore	495	608
Profit After Tax (PAT)	Rs.Crore	15	16
PAT margin	%	3.1	2.7
Adjusted debt/adjusted networth	Times	0.17	0.67
Interest coverage	Times	3.9	5.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Level	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	125	NA	CRISIL BBB+/Watch Negative
NA	Letter of Credit	NA	NA	NA	95	NA	CRISIL A2/Watch Negative

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	125.00	CRISIL BBB+/(Watch) Negative			10-12-19	CRISIL BBB+/Stable	04-05-18	CRISIL A-/Stable			CRISIL A-/Stable
						25-06-19	CRISIL A-/Negative	31-03-18	CRISIL A-/Stable			
Non Fund-based Bank Facilities	LT/ST	95.00	CRISIL A2/(Watch) Negative			10-12-19	CRISIL A2	04-05-18	CRISIL A2+			CRISIL A2+
						25-06-19	CRISIL A2+	31-03-18	CRISIL A2+			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit	**125**	**CRISIL BBB+/Watch Negative**	**Cash Credit**	**125**	**CRISIL BBB+/Stable**
Letter of Credit	**95**	**CRISIL A2/Watch Negative**	**Letter of Credit**	**95**	**CRISIL A2**
Total	**220**	**--**	**Total**	**220**	**--**

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition

Criteria for rating instruments backed by guarantees
Rating criteria for manufaturing and service sector companies
Rating Criteria for Petrochemical Industry
CRISILs Bank Loan Ratings
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support
The Rating Process
Understanding CRISILs Ratings and Rating Scales

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