

October 22, 2021

To, <b>BSE Limited</b> Department of Corporate Services, P. J. Towers, Dalal Street, Fort, Mumbai – 400 001 <b>Scrip Code: 532543</b>	To, National Stock Exchange of India Ltd. Exchange Plaza, 5th Floor, G-Block, Bandra Kurla Complex, Bandra East, Mumbai - 400 051 <b>Scrip Symbol: GULFPETRO</b>
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Dear Sir,

**Sub.:** intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 – Credit Rating

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, this is to inform you that India Ratings & Research (Ind-Ra) has assigned GP Petroleums Limited (GPPL) a Long-Term Issuer Rating of 'IND BBB-'. The Outlook is Stable.

Instrument type	Size of Issue (million)	Rating/Outlook	Rating Action
Fund Based –Non Fund Based Working capital Limit	INR 1,500	IND BBB- /Stable /IND A3	Assigned

Kindly take this on your record and disseminate the same on your website.

Thanking you,

**Yours faithfully**  
**For GP Petroleums Limited**



**Bijay Kumar Sanku**  
**Company Secretary &**  
**Compliance officer**

## India Ratings Assigns GP Petroleums 'IND BBB-'/Stable

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# 21

OCT 2021

By Bhanu Patni

India Ratings and Research (Ind-Ra) has assigned GP Petroleums Limited (GPPL) a Long-Term Issuer Rating of 'IND BBB-'. The Outlook is Stable. The instrument-wise rating action is given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based/non-fund-based working capital limit	-	-	-	INR1,500	IND BBB-/Stable/IND A3	Assigned

**ANALYTICAL APPROACH:** Ind-Ra has assessed the standalone credit profile of GPPL, as the agency has received a management undertaking stating that the ongoing reorganisation and rephasing of the business operations and financial resources of promoters, GP Global APAC Pte Ltd (GPGAPL; 53.55% shareholding) and Nivaya Resources Pvt. Ltd (NRPL; 19.09%), or any group company will not have any impact on the operations and activities of GPPL.

### KEY RATING DRIVERS

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**GPPL to Not Be Impacted by Ongoing Stress in Group Companies:** GPPL is part of the Gulf Petrochem FZC Group of companies, promoted by the Goel family. The ultimate parent company - Gulf Petrochem FZC (GPF) – is an oil trader and ship fuel supplier based in the United Arab Emirates. GPF suffered COVID-19 led losses over FY21 and YTD FY22, and undertook reorganisation and rephasing of its business operations and financial resources. GPPL's promoters, including some of the group companies, also suffered losses and have undertaken similar restructuring exercise. However, Ind-Ra has assessed the impact of these on GPPL as low in accordance with the management undertaking stating that the ongoing reorganisation and rephasing of the business operations and financial resources of GPGAPL, NRPL or any other group company will not have any impact on the operations and activities of GPPL. According to the management's undertaking, GPPL's operations will continue on going-concern basis, without any risk of consolidated restructuring/bankruptcy filing, even if its promoters or ultimate parent undergoes any restructuring/bankruptcy exercise.

Currently, there are no loans/guarantees outstanding between GPPL and other group companies, including the parent companies. There is no cross charge on any assets of GPPL in any other group companies. Also, the only financial interest of GPPL's promoters in the company is in the form of their respective shareholding. Additionally, as part of the restructuring, the promoters may consider divesting their entire equity stake in GPPL, in favour of a potential investor, subject to the applicable laws/regulations in India. Ind-Ra will assess the impact, if and when such a change in shareholding takes place, and can re-assess the ratings at that time. Furthermore, the management has undertaken that there will not be any cash outflows or any support extended to any of these companies as part of the restructuring exercise. The related party transactions between GPPL and group companies has remained limited to 5%-6% of revenues over FY18-FY21. The company has three independent members on the board out of total six members and a professional management.

At the time of default in these group companies, the bankers of GPPL had also taken a conservative view and curtailed some of the limits extended to the company (total working capital limits reduced to INR1,400 million from INR2,200 million). However, despite the curtailment, GPPL has managed its business operations, and the management believes that the current level of limits available will have limited-to-no impact on the company's scale of operations.

**Medium Scale of Operations with Range-bound Margins:** GPPL operates as a manufacturer as well as a trader for base oil derivative products in industrial, automotive and rubber process oils segments. During FY21, GPPL generated INR6,098 million in revenues (FY20: INR4,952 million) of which 52% was from manufacturing segment and 48% was from trading segment (67% and 33% respectively). As per the management, GPPL focusses largely on the manufacturing segment, while the trading is undertaken only in cases where there is a commercial incentive.

Over FY16-FY20, the company's EBITDA margins have remained rangebound at 5.5%-6.5% driven by the mix of manufacturing vs trading segment operations. GPPL's margins adjusted for one-time provisioning remained at 6.2% for 1QFY22 and 6.4% for FY21 (FY20: 5.7%). In 1QFY22 and FY21, GPPL took INR150 and INR120 million of provisioning expense respectively, on one supplier to whom advance of INR270 million was booked in FY20, resulting in a lower EBITDA of negative INR54 million and INR268.9 million respectively (FY20: INR281.2 million). The company has been taking certain measures to reduce the overheads and also improve the product mix gradually; however, Ind-Ra expects the revenue and margins to continue in the same range over the medium term.

**Moderate Credit Metrics:** GPPL only has working capital cycle-dependent short-term limits on its books. Its gross debt (excluding lease liability) at end-1QFY22 stood at INR636 million (FYE21: INR1,183 million; FYE20: INR381 million), which included INR382 million in cash credit limits and INR254 million in acceptances for import of base oil (FY21: INR454 and INR729, respectively).

The company's gross interest coverage (EBITDA/gross interest expense (excluding forex movement)) remained comfortable at 4.4x for FY21 (FY20: 4.0x) and net leverage at 4.0x (1.5x). The higher net leverage at FYE21 was due to the provision expense in EBITDA and a higher year-end debt due to increased imports at that time. Ind-Ra expects the company's credit metrics to remain comfortable over the medium term; however, any higher short-term debt or lower-than-expected EBITDA generation could impact the credit metrics.

**Liquidity Indicator- Stretched:** GPPL's cash flow from operations was negative INR559 million in FY21 (FY20:INR1,017 million) led by a higher net working capital at INR2,659 million (INR1,854 million), led by higher year-end inventory. The company on average maintains unencumbered cash of around INR10 million; the same was high at FYE21 at INR147 million (FYE20: INR11.7 million), led by higher month-end realisation, which later normalised to average levels.

Furthermore, GPPL's liquidity is constrained by the high working capital requirement of the business. GPPL's inventory holding period over FY16-FY21 has averaged at around 90 days; it has receivable days of around 70 against low payable days of around 20. Resultantly, the company's operations are dependent upon the working capital lines available. Additionally, given the imports based on letter of credit (LC)/bank acceptances, GPPL's reliance on non-fund-based lines also remains moderate depending upon the quantum of order placed.

The company's maximum working capital limit utilisation over 30 months (March 2019- August 2021), stood at INR1,440 million in September 2019, and the same reduced to INR860 million for the 12 months ended August 2021, well within the current limits. Ind-Ra believes that the flexibility enjoyed by the company may have been curtailed due to the limit reduction. However, GPPL is now using short-term LCs and rotating them as against long term LCs earlier, thereby continuing business activities, Ind-Ra will monitor any negative development on the limits closely and reduction in limits or inability of the company to avail these limits in a timely manner could be negative for the ratings.

**Exposed to Forex Risk:** GPPL is exposed to foreign exchange gain or loss given its import-based acceptances. While over FY16-FY20, company reported low forex losses in the range of INR1 million- 7 million, it reported a forex gain of INR48 million in interest expense. Of this, realised forex gain was INR33 million in FY21 (FY20: INR8.4 million). Since, the company has a dynamic hedging strategy as against a fixed hedging policy, it leaves GPPL open to forex fluctuations.

## RATING SENSITIVITIES

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**Positive:** Significant improvement in scale of operations and EBITDA levels, leading to the interest coverage remaining above 4x on a sustained basis, along with maintaining sufficient liquidity could be positive for the ratings

**Negative:** Any of the following could be negative for the ratings:

- a further decline in the EBITDA generation; higher short-term debt, leading to a decline in the gross interest coverage below 1.5x on a sustained basis
- any cash outflows to support the group level restructuring
- a significant change in management strategy, in case of sale of parent's share to another party

## COMPANY PROFILE

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GPPL, incorporated in 1983, is a listed company and is primarily in to the manufacturing of lubricants & greases in India. The company also trades in base oils, coal and bunker fuel oil whenever the market provides an opportunity. It specialises in the formulation, manufacturing and marketing of automotive & industrial lubricants, process oils, transformer oils, greases and other specialty products under the brand name IPOL in India. The company also has the exclusive rights

to sell REPSOL automotive lubricants in India, a brand of Spanish oil major Repsol S.A.

## FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	6,098	4,952
EBITDA (INR million)	268.9	281.2
EBITDA margin (%)	4.4	5.7
Gross interest coverage (excluding forex movement) (x)	4.4	4.0
Net financial leverage (x)	4.0	1.5
Source: GPPL, Ind-Ra		

## BANK WISE FACILITIES DETAILS

[Click here to see the details](#)

## COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Fund-based/non-fund-based working capital limit	Low

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## Applicable Criteria

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[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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## Analyst Names

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