GOCL

GOCL Corporation Limited

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25th April, 2018

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001
Fax: 022-22723121/2027/2041/2061/3719
Through: BSE Listing Center

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex
Bandra (E), Mumbai- 400 051.
Fax: 022-2659 8237/38, 2659 8347/48
Through: NEAPS

Dear Sir/Madam,

Intimation under Regulation 30 of SEBI (LODR) Regulations – Assignment of Credit Rating by Infomerics Valuation and Rating Private Limited.

Ref: BSE Scrip code-506480, NSE Scrip symbol- GOCLCORP

Pursuant to Regulation 30 of SEBI (LODR) Regulations, 2015 and other applicable provisions, we would like to inform you that Infomerics Valuation and Rating Private Limited has assigned the following ratings to the Company.

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Previous Rating
1.	Long Term Fund Based Limits (incl. proposed limits of Rs. 5.00 crore)	20.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	[ICRA] BBB Stable
2.	Short Term Non-Fund Based Facilities (incl. proposed limits of Rs.29.00 crore)	85.00	IVR A2+ (IVR A Two Plus)	[ICRA] A3+ Stable
3.	Letter of Comfort (USD 107.41 mn)	689.41	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	[ICRA] BBB Stable (USD 180 million)
	Total	**794.41**		

The rationale for the rating as received from Infomerics Valuation and Rating Private Limited is enclosed herewith.

This is for your information and records.

Thanking You.

Yours Faithfully,
For GOCL Corporation Limited

A Satyanarayana
Company Secretary

Encl: a/a

Press Release

GOCL Corporation Ltd.

April 24, 2018

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits (incl. proposed limit of Rs.5.00 crore)	20.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Short Term Non-Fund Based Facilities (incl. proposed limits of Rs.29.00 crore)	85.00	IVR A2+ (IVR A Two Plus)
3.	Letter of Comfort (USD 107.41 mn)*	689.41	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
	Total	**794.41**	

*based on USD/INR of Rs.64.18

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings derive strength from the long track record of operations of the entity & experienced management, belongingness to Hinduja group having demonstrated support to the company and presence of the company in a niche product segment. The expected profit growth from the company's real estate segment, significant upside from its shareholding in Houghton International Inc (HII) and low level of working capital requirements vis-à-vis the scale of operation of the company also support the rating.

The ratings, however, are tempered by moderate profitability with volatility, leveraged capital structure and customer & sectoral concentration risks.

Growth in scale of operation &profitability, leverage along with any changes in the regulatory and environmental norms pertaining to mining are the key rating sensitivities.

List of Key Rating Drivers

- Long track record & experienced management
- Belongingness to Hinduja group having demonstrated support to the company

- Presence in niche product segment
- Expected profit growth fromreal estate segment
- Significant upside from shareholding in HII
- Low level of working capital requirements vis-à-vis the scale of operation
- Moderate profitability with volatility
- Leveraged Capital Structure
- Customer & sectoral concentration risks

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Long track record of operations &experienced management

GOCL, incorporated in 1961, is an over five decades old company. It commenced operation with manufacturing industrial explosives and subsequently forayed into various segments like lubricants, mining, real estate, wind energy, food chemicals, pharmaceuticals, etc. through various joint ventures/subsidaries. Currently, it has its presence mainly in energetics with real estate and mining segments constituting a small proportion of revenue at present. Mr. Ajay Hinduja is the Chairman of the company while the day-to-day affairs of the company are looked after by Mr. Subhas Pramanik, who is the MD. They are well assisted by a team of experienced management professionals.

Belongingness to Hinduja group having demonstrated support to the company

The company is a part of the Hinduja Group which came into beingin1918. It is one of the largest diversified groups having presence in around 30 countries in sectors encompassing automotive (Ashok Leyland Ltd.), oil &gas (Gulf Oil Lubricants Ltd.), banking & finance (Indusind Bank Ltd.), power (Hinduja National Power Corporation Ltd.) , IT & BPO, media and healthcare. The Hinduja group has provided timely and adequate financial support to GOCL and its subsidiaries, in case of need. Recently in October 2017, the holding company, Hinduja Power Limited (Mauritius), has increased its stake in the company from 64.94% in FY16 to 74.93%.

Presence in niche product segment

GOCL operates in a niche product segment wherein it manufactures detonating fuse, detonators and explosives and electronic detonators, which the company has indigenously developed. The products of the company are mainly used in the mining sector. Also, it is in the process of developing new products which will find application in the defence, space and metal cladding, for which the company already has few orders in place.

Expected growth in profits from real estate segment

Recently, the company has also ventured into the real estate segment, wherein it is developing an IT knowledge park (under SEZ) along with a hotel and service apartments at Bangalore. The same is being undertaken through a Joint Development Venture (JDV) with Hinduja Realty Ventures Limited (HRVL).The total land area is about 39.67 acres wherein the company plans to construct six towers, in aggregate; out of which two towers (having total area of 1.5 mn sq. ft.) have already been constructed and are ready for occupation in a land area of about 8.5 acres (mortgaged to Axis Bank). As per the JDV, the company will receive 30% of the lease rentals from this project. HVRL and GOCL are in the process of finalizing tie-ups for the project. Also, the company has plans to construct the remaining four more towersby FY2022.

Significant upside from shareholding in HII

GOCL, through its subsidiaries & associates, has 10% equity stake in HII (unlisted company). Now, HII has entered into a definitive agreement for merger with Quaker Chemical Ltd. which is engaged in a similar line of business. The current market capitalization at New York Stock Exchange of Quaker Chemical Ltd. Is USD 2.04 bn. As a result of this proposed merger, GOCL's aforesaid stake is likely to be around Rs.300 crore, at current market price.

Low level of working capital requirements vis-à-vis the scale of operation

Generally, the company has a policy of allowing a credit period of two months to its customers; whilst availing a credit period of three months from its suppliers. Average utilisation of the company's fund based working capital limits remained low at around 40% during the past 12 months ended February 2018. Further, the company's cash conversion cycle also improved from 115 days in FY15 to 49 days in FY17 mainly on account of reduction in collection period and inventory days, reflecting better working capital management.

Key Weaknesses:

Moderate profitability with volatility

GOCL's total revenue, on consolidated basis, increased from Rs.390.33 crore in FY15 to Rs.495.65 crore in FY17 owing to increasing volume of detonators, detonating fuse, electronic detonators and boosters in the domestic and export markets. However, the company's EBITDA margin remained volatile from 7.80% in FY15 to 5.52% in FY16 on account of slowdown of mining operation due to cancellation of mining licenses in the industry. However, due to the company's focus on high margin products such as electronic detonators and special products for defence and control on raw material costs, the EBIDTA margin improved to 6.15% in FY17. PAT margin, which includes non-operational income mainly in the form of interest income on loans advanced to group entities stood at 5.74% during FY17.

Further, during 9MFY18, the company reported total revenue and EBITDA of Rs.353.52 and Rs.17.81 crore respectively as against revenues and EBITDA of Rs.408.88 crore and Rs.20.36 crore during 9MFY17.

Leveraged Capital Structure

The company has a leveraged capital structure marked by long term debt equity and overall gearing ratio of 2.61x and 2.72x, on consolidated basis. The same is on account of term debt taken by its subsidiary HGHL Holding Ltd (Rs.821.00 crorei.e., USD 126.59 mn outstanding as on March 31, 2017 and Rs.574 crore i.e., USD 88.20 mn as on March 31,2018).Without including the effect of this loan, the long term debt-equity and overall gearing would stand at 0.46x and 0.56x respectively as on March 31, 2017.HGHL had taken the debt from SBI, UK, for which GOCL is a co-obligor and lent the same to its then subsidiary, GHGL London Ltd, UK (GHGL) as part finance for the purpose of acquisition of Houghton International Inc, USA (HII). Subsequently, in June 2013, 90% stake in GHGL was acquired by Gulf Oil International, Cayman (GOIC). With respect to the debt taken by HGHL, GOIC has been timely repaying the principal and interest to HGHL who, in turn, pays the same to the lender as per the arrangement between the companies. Also, GOIC has provided a cash deficit undertaking to GOCL and HGHL stating that in the event any amount is recovered or any security is enforced by the lender with respect to the debt, then the entire sum equivalent to such amount will be paid by GOIL. Therefore, there is likelihood of minimal impact of this debt on the cash flows of GOCL and HGHL.

Customer & sectoral concentration risks

On a consolidated level, GOCL's top four customers accounted for around 65% of the total revenue in FY17. Out of the above, Coal India Ltd and Singareni Collieries Company Ltd themselves contributed around 56% of the total revenue, reflecting high customer concentration risk for the company. The products manufactured by the company are mainly used in the mining sector, which is highly regulated. The company also undertakes mining contracts to some extent. Any adverse changes in the regulatory and environmental framework are the key rating sensitivities.

Analytical Approach: Consolidated

Applicable criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

GOCL Corporation Limited (GOCL), formerly Gulf Oil Corporation Limited, was incorporated in 1961. 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.

At present, the company along with its subsidiaries is engaged in the manufacture of industrial explosive accessories (mainly detonators) which are used in the mining & infrastructure segment. Also, the company manufactures explosive bonded metal clads and special devices for defence and space applications. It is one of the largest exporters of detonators to various countries, which include countries in the Far East, South East Asia, Southern Asia, West Asia, Gulf, Middle East, North Africa and Southern Europe. GOCL has its manufacturing facility located at Hyderabad. Recently, the company has also ventured into the real estate segment, wherein it is in the process developing an IT knowledge park (under SEZ) along with a hotel and service apartments at Bangalore. The same is being undertaken through a Joint Development Venture (JDV) with Hinduja Realty Ventures Limited (HRVL), wherein the company has only contributed land for the project, and rest of the work is done by HRVL.

Financials (Consolidated Basis)

(Rs. c rores)

For the year ended* / As On	**31-03-2016**	**31-03-2017**
Total Operating Income	484.39	495.65
EBITDA	26.75	30.51
PAT	26.94	32.91
Total Debt	1247.54	1033.33
Tangible Networth	352.89	380.41
EBITDA Margin (%)	5.52	6.15
PAT Margin (%)	4.79	5.74
Overall Gearing Ratio (x)	3.54	2.72
Adjusted Gearing Ratio (x)	0.66	0.56

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

S. No.	**Name of Instrument/Facilities**	**Current Rating (Year 2018-19)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**	**Date(s) & Rating(s) assigned in 2015-16**
1.	Long Term Fund Based Limits (incl. proposed limit of Rs.5.00 crore)	Long Term	20.00	IVR A-/ Stable Outlook	--	--	--
2.	Short Term Non-Fund Based Facilities (incl. proposed limit of Rs.29.00 crore)	Short Term	85.00	IVR A2+			
3.	Letter of Comfort	Long Term	689.41 (USD	IVR A-/ Stable			

			107.41 mn)	Outlook			

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. 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 Limits- Cash Credit	NA	NA	NA	20.00 (including proposed limits of Rs. 5.00crore)	IVR A-/ Stable Outlook

Short Term Fund based facilities-LC/BG/Buyer's Credit/Forward Contract Limit	NA	NA	NA	85.00 (including proposed limits of Rs. 29.00 crore)	IVR A2+
Letter of Comfort	NA	NA	NA	689.41 (USD 107.41 mn)*	IVR A-/ Stable Outlook

*based on USD/INR of Rs.64.18