

IPO Flash

November 21, 2023

Index

Gandhar Oil Refinery India

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| IPO Details: | |
|-------------------------------|---|
| Issue opens | November 22, 2023 (Wednesday) |
| Issue closes | November 24, 2023 (Friday) |
| Issue size | Rs. 500.69 crore |
| Type of issue | Fresh issue of up to 17,869,822 equity shares aggregating to Rs.302 crore and Offer for Sale (OFS) of up to 11,756,910 equity shares aggregating to Rs. 198.69 crore. |
| Price band | Rs. 160-169 |
| Bid Lot | 88 Shares |
| Post issue implied market cap | Rs. 1,582-1,654 crore |
| Issue Structure | |
| Institutional portion (QIB) | Not more than 50% |
| Non-Institutional portion | Not less than 15% |
| Retail Portion | Not less than 35% |
| BRLMs | Nuvama Wealth Management Limited and ICICI Securities Limited |

Source: Company RHP; Note: The company and selling shareholders in consultation with BRLM might offer 60% of QIB portion to anchor investors on a discretionary basis

About the IPO

Gandhar Oil Refinery India Limited's IPO is a combination of fresh issue of 1.79 crore shares aggregating to Rs. 302 crore and an offer for sale of 1.18 crore shares aggregating to Rs. 199 crore. The issue is priced at Rs. 160-169 per share.

Offer for sale details

| Sr. No. | Name of the selling shareholders | Number of offered shares |
|--|----------------------------------|--------------------------|
| Promoter Selling Shareholder | | |
| 1 | Mr. Ramesh Babulal Parekh | Up to 2,250,000 |
| Promoter Group Selling Shareholders | | |
| 2 | Mr. Kailash Parekh | Up to 2,250,000 |
| 3 | Ms. Gulab Parekh | Up to 2,250,000 |
| Other Selling Shareholders | | |
| 4 | Green Desert Real Estate Brokers | Up to 3,000,000 |
| 5 | Denver Bldg Mat & Décor TR LLC | Up to 1,000,000 |
| 6 | Fleet Line Shipping Services LLC | Up to 1,000,000 |
| 7 | Mr. Sunith Menon | Up to 1,970 |
| 8 | Mr. Vijendra Sumatilal Patani | Up to 1,970 |
| 9 | Mr. Vinay Prabhakar Ulpe | Up to 1,970 |
| 10 | Mr. Mayur Bhupendralal Desai | Up to 1,000 |

Source: Company RHP

Shareholding pattern

| Shareholder | Pre-issue | | Post-issue* | | Post-issue^ | |
|--------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|
| | No of shares | Holding (%) | No of shares | Holding (%) | No of shares | Holding (%) |
| Promoters | 7,00,00,000 | 87.5 | 5,75,81,764 | 58.2 | 5,82,43,090 | 59.5 |
| Public | 1,00,00,000 | 12.5 | 4,12,93,236 | 41.8 | 3,96,26,732 | 40.5 |
| Total | 8,00,00,000 | 100.0 | 9,88,75,000 | 100.0 | 9,78,69,822 | 100.0 |

Source: Company RHP (*Lower price band; ^Upper price band)

Object of the Fresh Issue

| Particulars | Amount (Rs. crore) |
|---|--------------------|
| Investment into Texol by way of a loan for financing the repayment/pre-payment of a loan facility | 22.7 |
| Capital expenditure through purchase of equipment and civil work required for expansion in capacity of automotive oil at its Silvassa Plant | 27.7 |
| Funding working capital requirement of the company | 185.0 |
| General corporate purposes | - |

Source: Company RHP

About the company

Gandhar Oil Refinery India Limited is a leading manufacturer of white oils (by revenue) with a growing focus on the consumer and healthcare end-industries. As of June 30, 2023, the company's product suite comprised over 440 products primarily across personal care, healthcare and performance oils ("PHPO"), lubricants and process and insulating oils ("PIO") divisions under the "Divyol" brand. These products are used as ingredients by leading Indian and global companies for the manufacture of end products for the consumer, healthcare, automotive, industrial, power and tyre and rubber sectors. The company's products are sold in over 100 countries across the globe, and it catered to over 3,500 customers in FY2023.

Key business divisions

| Business division | Product categories | Primary end-industries |
|---|---|---|
| Personal care, healthcare and performance oils (PHPO) | White oils, waxes and jellies | Consumer; healthcare; plastics; chemical; textiles; and fragrance |
| Lubricants | Automotive oils and industrial oils | Automobile; and industrial machines and equipment |
| Process and insulating oils (PIO) | Transformer oils and rubber processing oils | Transformer manufacturers; power generation and distribution; and tyre and rubber product manufacturers |

Source: Company RHP

Business division by revenue break-up

| Particulars | Rs. crore | | | | | | | |
|---|--------------|---------------|--------------|---------------|--------------|---------------|------------|---------------|
| | FY21 | % of revenues | FY22 | % of revenues | FY23 | % of revenues | Q1FY24 | % of revenues |
| Personal care, healthcare and performance oils (PHPO) | 772 | 45% | 1,480 | 53% | 2,098 | 55% | 553 | 56% |
| Lubricants | 473 | 27% | 594 | 21% | 956 | 25% | 263 | 27% |
| Process and insulating oils (PIO) | 219 | 13% | 292 | 11% | 363 | 10% | 66 | 7% |
| Channel partners | 265 | 15% | 401 | 14% | 401 | 11% | 100 | 10% |
| Total revenue | 1,729 | 100% | 2,766 | 100% | 3,818 | 100% | 982 | 100% |

Source: Company RHP

Volume break-up

| Particulars (kL) | FY21 | FY22 | FY23 | Q1FY24 |
|---|-----------------|-----------------|-----------------|-----------------|
| Personal care, healthcare and performance oils (PHPO) | 1,43,917 | 2,14,724 | 2,37,727 | 63,619 |
| Lubricants | 74,569 | 79,023 | 1,00,404 | 27,980 |
| Process and insulating oils (PIO) | 45,681 | 49,708 | 45,152 | 9,605 |
| Channel partners | 57,842 | 67,919 | 50,215 | 12,749 |
| Total volume | 3,22,009 | 4,11,374 | 4,33,498 | 1,13,953 |

Source: Company RHP

Total capacity, production and utilisation

| Particulars (kl) | FY21 | FY22 | FY23 | Q1FY24 |
|----------------------|----------|----------|----------|----------|
| Installed capacity | 4,97,403 | 4,97,403 | 5,22,403 | 5,22,403 |
| Actual production | 3,25,463 | 4,21,771 | 4,35,114 | 1,15,657 |
| Capacity utilisation | 65.4% | 84.8% | 83.3% | 88.6% |

Source: Company RHP

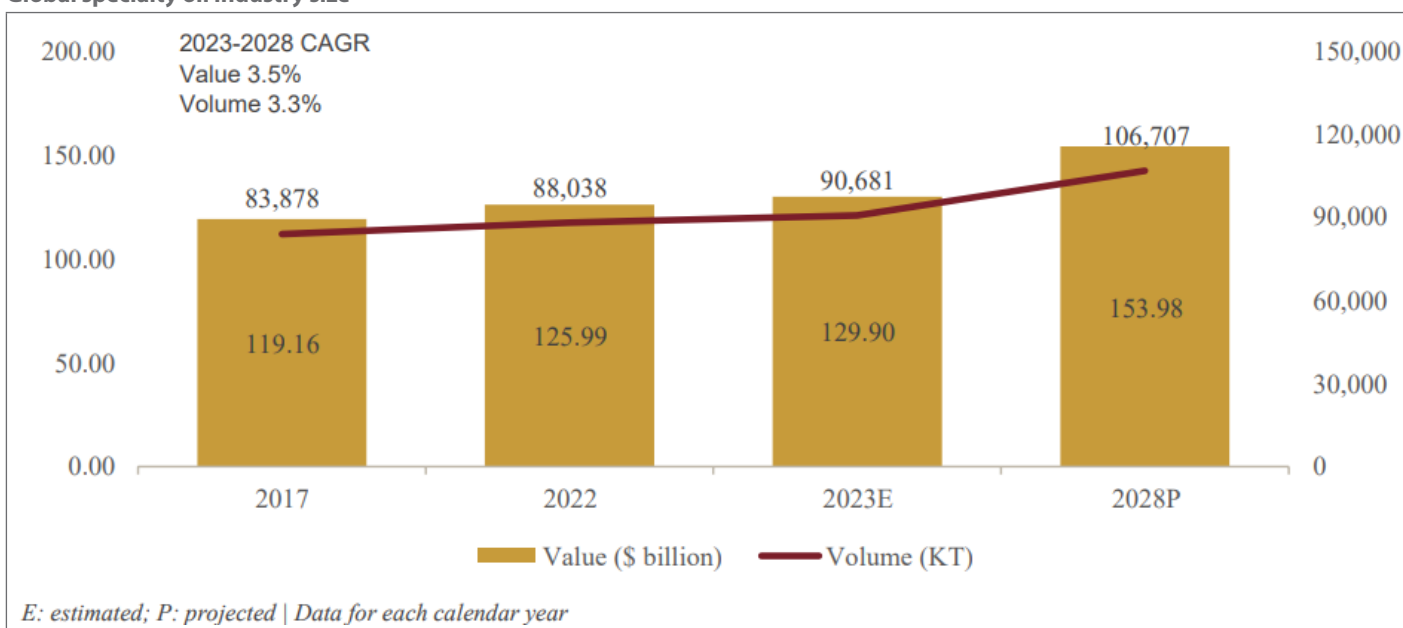
Plant-wise capacity and utilization

| Particulars (kL) | Capacity | Utilisation |
|------------------|----------|-------------|
| Taloja plant | 1,43,256 | 104.5% |
| Silvassa plant | 1,43,853 | 104.5% |
| Sharjah plant | 2,35,294 | 69.1% |
| Total | 5,22,403 | 88.6% |

Source: Company RHP

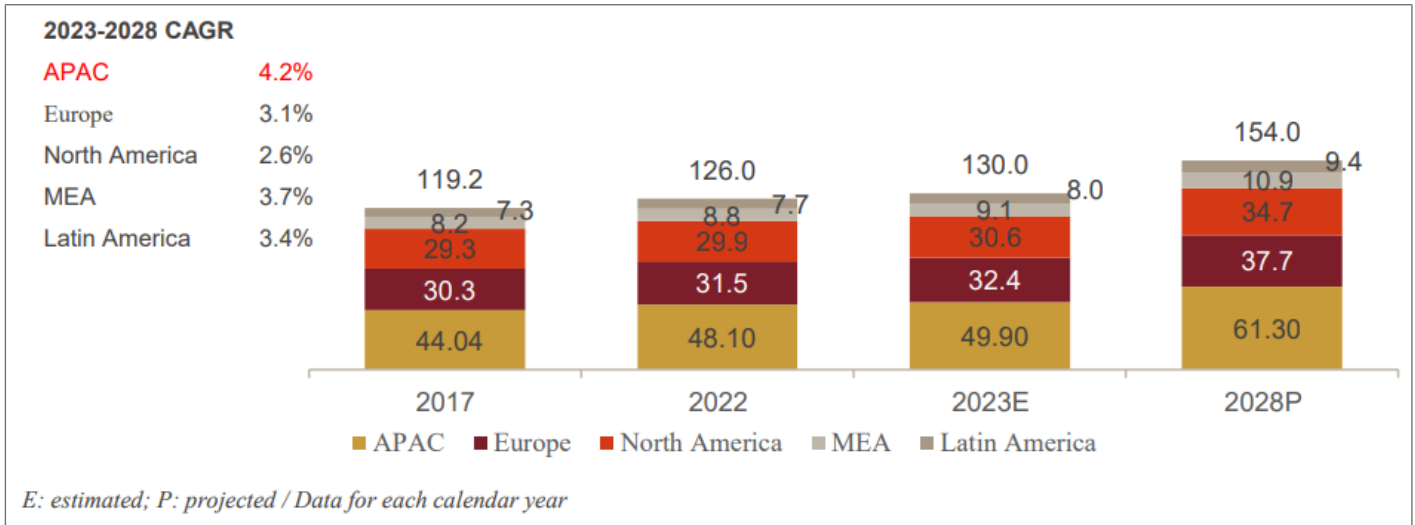
Industry overview

Global specialty oil industry size



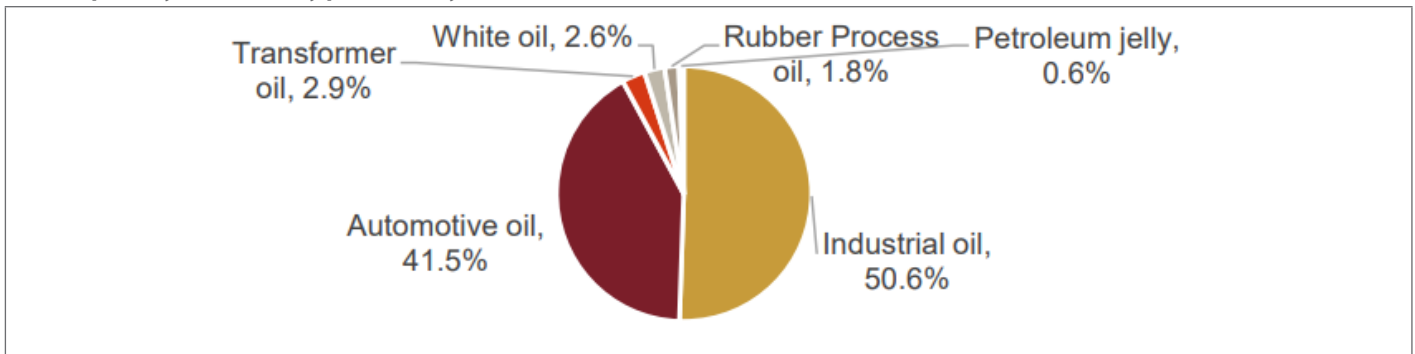
Source: Company RHP

Global specialty oil market by region (\$ billion)



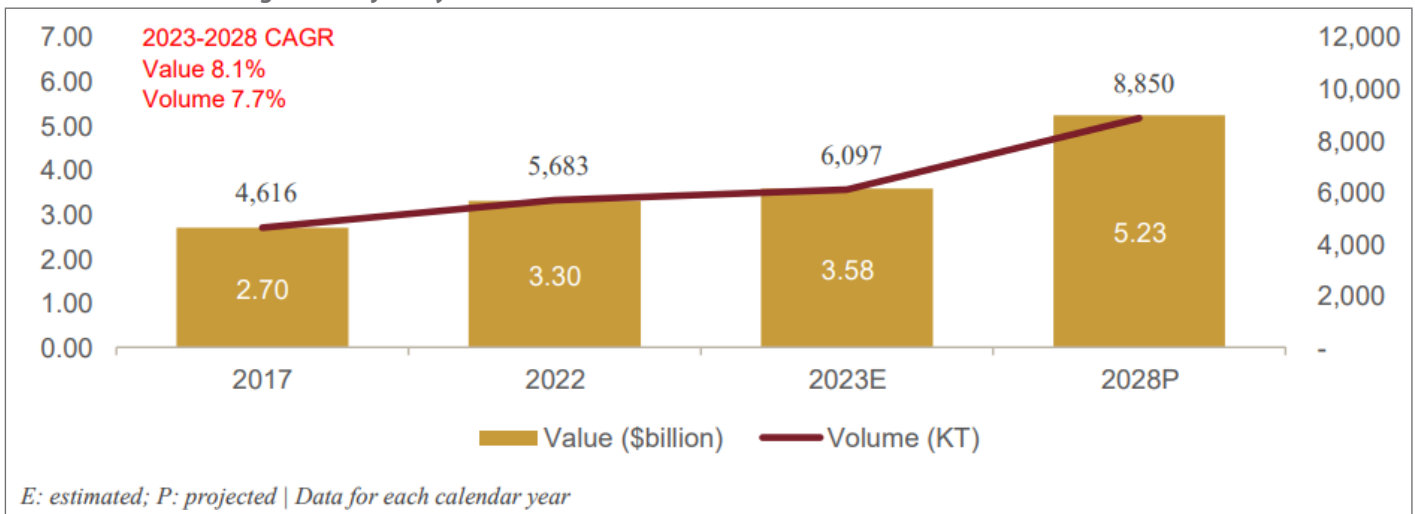
Source: Company RHP

Global specialty oil market by products (by value in 2022)



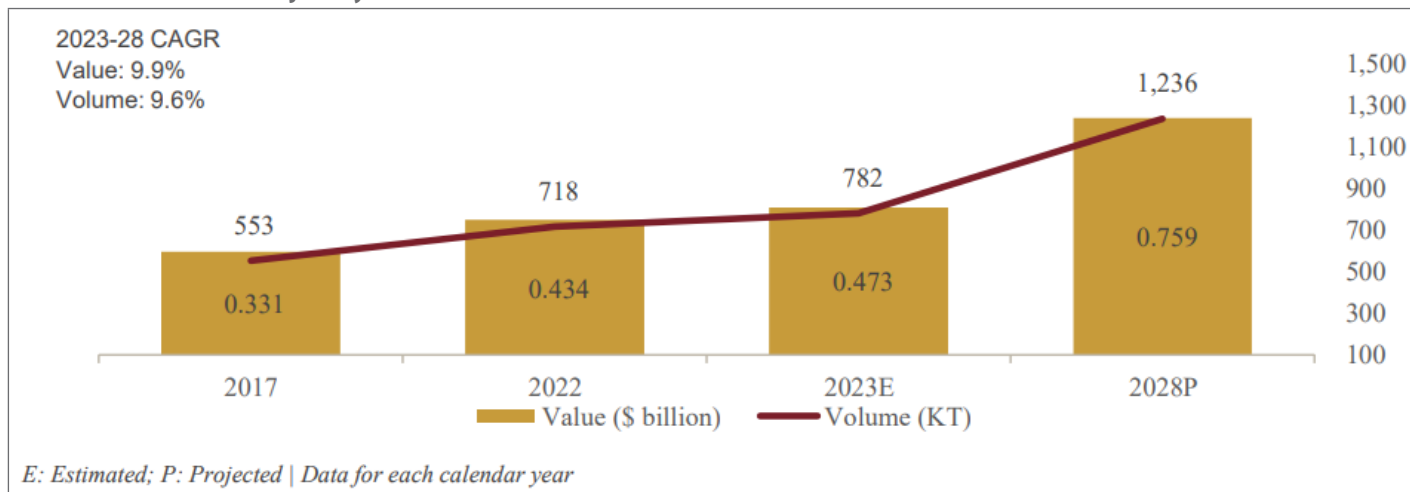
Source: Company RHP

Global white oil market growth trajectory



Source: Company RHP

Indian white oil market trajectory



Source: Company RHP

Management details

Brief Profiles of Directors

- ♦ **Mr. Ramesh Babulal Parekh** is the Promoter, Chairperson and Managing Director. He holds a bachelor's degree in commerce from the University of Mumbai. He has been working with the company since its incorporation and has over 31 years of experience in the petroleum and specialty oils industry.
- ♦ **Mr. Samir Ramesh Parekh** is the Promoter, Vice Chairperson and Joint Managing Director. He holds a Bachelor's degree in Commerce from the University of Mumbai. He has over 19 years of experience in manufacturing and marketing of petroleum and specialty oils industry. He is responsible for managing the operations of the company's Silvassa manufacturing facility.
- ♦ **Mr. Aslesh Ramesh Parekh** is the Promoter and Joint Managing Director. He holds a Bachelor's degree in Science from the University of Mumbai and a post-graduate certificate in e-management and business administration from the MET Asian Management Development Centre. He has over 19 years of experience in the petroleum and specialty oils industry. He is responsible for managing the operations of the Company's Taloja manufacturing facility and also heads the international business team of the Company.
- ♦ **Mr. Raj Kishore Singh** is an Independent Director. He holds a bachelor's degree in technology in mechanical engineering from Kashi Hindu Vishwavidyalaya. He is experienced in the petroleum industry and has previously worked with Bharat Petroleum Corporation Limited and in his most recent role was the chairman and managing director of Bharat Petroleum Corporation Limited.
- ♦ **Ms. Amrita Nautiyal** is an Independent Director. She holds a Bachelor's degree in Commerce from the University of Bombay and also holds a diploma in business management from the Narsee Monjee Institute of Management Studies.
- ♦ **Ms. Deena Asit Mehta** is an Independent Director. She holds a Bachelor's degree in Commerce from the University of Bombay and a master's degree in management studies from the University of Mumbai. She was the first woman president of the BSE. She is also a fellow member of the Institute of Chartered Accountants of India and a fellow of the Securities and Investment Institute.
- ♦ **Mr. Indrajit Bhattacharyya** is the Chief Financial Officer. He holds a bachelor's degree in commerce from the University of Calcutta and a master's degree in business administration from the University of Pune. Prior to joining the Company, he was associated with Trinity Forge Limited as a senior accountant, Bajaj Auto Finance as an officer in the internal audit unit, with Interdrill (Asia) Limited as chief financial officer and director (finance) and with Valecha Engineering Limited as Chief Financial Officer.

Key strengths

- ◆ **Leading market share in Indian white oils market:** The company was India's largest manufacturer of white oils by revenue in FY2023, including domestic and overseas sales and was one of the top five players globally in terms of market share in CY2022. As of June 30, 2023, company offered a diverse portfolio of over 440 products primarily across the PHPO, lubricants and PIO divisions. The company's products form a major component by volume for various consumer and healthcare end-industry products such as cosmetics, skin care products, ointments, over-the-counter and other medicines, as well as lubricants, processing oils and insulating oils.
- ◆ **Extensive and diversified customer base:** The company has long-standing relationships with several of its key customers and have been able to maintain high customer loyalty. The percentage of customers placing repeat orders in the quarter ended June 30, 2023 and the FY2023, FY2022 and FY2021 was 83.74%, 69.11%, 68.86% and 66.37% respectively.
- ◆ **Strategically located manufacturing facilities and in-house R&D capabilities:** The company currently operates three manufacturing facilities, with two plants located in Western India and one plant located in Sharjah, United Arab Emirates, spread across 1,28,454 square meters to cater to the Indian and global operations. As of June 30, 2023, the combined annual production capacity of these manufacturing facilities was approximately 522,403 kl. Further, the company has an R&D facility located at their Silvassa manufacturing facility where they undertake the R&D activities to support its manufacturing activities.
- ◆ **Resilient, flexible and scalable business model:** The company has three decades of experience in the specialty oils industry. They have increased the scale of their operations over the years, while increasing efficiency and reducing costs. The company started with the Taloja Plant in 1993, subsequently set up the Silvassa Plant in 2000 and set up Texol (that has become subsidiary with effect from March 30, 2022) with a partner in 2017, to expand into United Arab Emirates. The business model affords us the flexibility to grow and manage their operations.

Key Concerns

- ◆ The company depends significantly on personal care, health care and performance oil (PHPO) business division. Any reduction in revenue from this division could adversely affect company's business, financial condition and results of operations.
- ◆ The company sources most of its base oil, a key raw material, from South Korea and the Gulf Co-operation Council region. Any inability to obtain base oil from these countries in the absence of alternative sources may result in delay or cancellation of orders for the products, adversely impact customer relationships and have a material adverse impact on its business, financial condition and results of operations.
- ◆ The Promoters and company are involved in certain regulatory actions (including notices and summons with requests for information from the Enforcement Directorate and the Central Bureau of Investigation) and proceedings and investigations in respect of certain criminal proceedings. Any adverse outcome in such matters may adversely affect its business, reputation, financial condition and results of operations.

Valuation and view

At the IPO price band of Rs. 160-169/share per share, the offer is valued at 8.7x/8.2x its FY23 EPS at upper and lower price band. Valuation seems reasonable when compared to peers given Gandhar Oil Refinery India's proven track record of robust earnings growth (PAT CAGR of 38% over FY21-23) and high RoE of 32%. Moreover, the company is the largest manufacturer of white oil in India and among the top five players globally in terms of market share. The company plans to expand capacities at Taloja/Silvassa by 100,000 kL/18,840 kL and is focused to grow market share (through expansion of distribution network and entering into new geographies) bodes well for the company's growth.

Peer Comparison (based on FY23 financials)

| Particulars | Revenue (Rs. crore) | EPS (Rs./Share) | P/E (x) | RoNW |
|--|------------------------|--------------------|---------|------|
| Gandhar Oil Refinery India at upper price band | 4,079 | 19.4 | 8.7 | 32% |
| Gandhar Oil Refinery India at lower price band | | | 8.2 | |
| Savita Oil Technologies Limited | 3,630 | 32.7 | 10.0 | 17% |
| Apar Industries Limited | 14,352 | 166.6 | 34.8 | 32% |
| Galaxy Surfactants Limited | 4,445 | 107.5 | 26.1 | 22% |
| Privi Speciality Chemicals | 1,608 | 5.5 | 233.0 | 3% |
| Rossari Biotech Limited | 1,656 | 19.4 | 36.8 | 12% |
| Fairchem Organics Limited | 648 | 33.4 | 34.6 | 18% |

Source: Company RHP, Sharekhan Research

KEY FINANCIALS
Restated Profit & Loss (Consolidated)

| Particulars | Rs cr | | | |
|--|-------------|-------------|-------------|-------------|
| | FY21 | FY22 | FY23 | Jun-23 |
| Revenue from Operations | 2221 | 3543 | 4079 | 1070 |
| Cost of materials consumed | 1136 | 2382 | 3326 | 868 |
| Purchase of stock-in trade | 746 | 676 | 215 | 81 |
| Change in inventories | 52 | -2 | 16 | -7 |
| Employee benefit expenses | 24 | 37 | 52 | 11 |
| Other Expenses | 125 | 205 | 154 | 34 |
| Total Expenditure | 2082 | 3297 | 3763 | 986 |
| Operating Profit | 139 | 246 | 317 | 84 |
| OPM % | 6.2% | 6.9% | 7.8% | 7.9% |
| Depreciation | 11 | 15 | 17 | 5 |
| EBIT | 127 | 231 | 300 | 79 |
| Finance cost | 36 | 32 | 52 | 13 |
| Other income | 22 | 26 | 22 | 1 |
| PBT excluding JV | 113 | 225 | 271 | 67 |
| Share of JV | 7 | | | |
| Exceptional item | | -1 | | |
| PBT | 120 | 225 | 271 | 67 |
| Tax | 20 | 62 | 58 | 13 |
| Net Income | 100 | 164 | 213 | 54 |
| Minority Interest | 0 | 16 | 23 | 9 |
| Net Income post minority interest | 100 | 147 | 190 | 45 |

Source: Company RHP

Restated Balance Sheet (Consolidated)

| Particulars | Rs cr | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | FY21 | FY22 | FY23 | Jun-23 |
| Total Non-Current Assets | 126 | 257 | 359 | 342 |
| Total Current Assets | 975 | 1,062 | 1,255 | 1,454 |
| Total Assets | 1,101 | 1,318 | 1,613 | 1,796 |
| Equity | | | | |
| Equity Share Capital | 16 | 16 | 16 | 16 |
| Other Equity | 429 | 525 | 709 | 754 |
| Non Controlling Interest | | 20 | 35 | 41 |
| Total Equity | 445 | 561 | 760 | 811 |
| Total Non-Current Liabilities | 27 | 64 | 72 | 65 |
| Total Current Liabilities | 629 | 693 | 781 | 920 |
| Total Equity and Liabilities | 1,101 | 1,318 | 1,613 | 1,796 |

Source: Company RHP

Restated Cash flow statement (Consolidated)

| Particulars | Rs cr | | | |
|--|-------|------|------|--------|
| | FY21 | FY22 | FY23 | Jun-23 |
| Particulars | FY21 | FY22 | FY23 | Jun-23 |
| Net cash generated from operating activities | 118 | 167 | 103 | -133 |
| Net cash used in investing activities | -22 | -116 | -73 | -7 |
| Net cash used from/in financing activities | -91 | -4 | -44 | 152 |
| Net increase in cash & cash equivalents | 5 | 47 | -13 | 12 |
| Cash & cash equivalents at beginning of the year | 8 | 13 | 60 | 47 |
| Cash & cash equivalents at the end of the year | 13 | 60 | 47 | 59 |

Source: Company RHP

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