

The Issue	
Type of Issue	Issue size Rs. Mn
Fresh Issue	3,020
Offer for Sale	1,990
Total	5,010
Post issue mkt cap (Rs. bn)*	16.5
Lot size	88

*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NIB	15%
Retail	35%
Total	100%
Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	22-11-2023
Bid/Offer Closing Date	24-11-2023
Finalization of the Basis of Allotment	30-11-2023
Initiation of refunds	01-12-2023
Credit of shares	04-12-2023
Listing Date	05-12-2023

Use of Proceeds
Loan repayment of Texol, Capex for expansion at Silvassa plant for auto motive oil.
Working capital requirements , General corporate purposes.
Manager: Nuvama Wealth, ICICI Securities
Registrar: Link Intime India Private Limited

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Global leader in white oil industry

Company Overview

Gandhar Oil Refinery Ltd is India's largest manufacturer of white oils by revenue with a market share of 26.5%, including domestic and overseas sales and is one of the top five players globally in terms of market share. its 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.

Company currently operates three manufacturing facilities with a combined annual production capacity of 522,403 KL as of June 30, 2023, with plants located in Taloja, Silvassa, and Sharjah, UAE to cater to domestic and overseas demand for their products.

As of June 30, 2023, company's product suite is comprised over 440 products primarily across the personal care, healthcare and performance oils ("PHPO"), lubricants and process and insulating oils ("PIO") divisions under the "Divyo" brand.

Company's products are sold in over 100 countries around the world and the company caters to 3,500 customers which includes customers like Procter & Gamble, Unilever, Marico, Dabur, Encube, Patanjali Ayurved, Bajaj Consumer Care, Emami and Amrutanjan.

Company has three business division that include personal care healthcare and performance oils (PHPO), Lubricants and Process and insulating oils (PIO).

Company sources the raw material which is primarily base oil from leading oil companies including SK Lubricants, S-Oil, GS Caltex, and other global base oil suppliers as well as various Indian oil refining companies.

Valuation and Outlook:

At upper price band of Rs. 169, the IPO is valued at a post-issue dilutive P/E of 7.75x i.e. is at 53% discount to its Industry peers (Specialty Oil Cos.). Gandhar oil is India largest player and one of the leading producers in White oil. White oil, a major raw material used in the manufacturing of consumer and healthcare products, is anticipated to be the fastest-growing segment in the industry over the next few years. The company derives a large portion of revenue from the white oil segment, i.e. PHPO, making it a highly attractive proposition. Additionally, the specialty oil industry presents substantial barriers to entry due to the time required for customer empanelment. Additionally, the company is looking to expand its existing capacities at Taloja Silvassa plant which augurs well for the company. **Given these growth levers going ahead, we assign a Subscribe rating to the IPO.**

NOVEMBER 22, 2023

Gandhar Oil Refinery Ltd

Key financial summary

Financial summary (Rs. mn)	FY21	FY22	FY23	3MFY24
Revenue	22,210	35,438	40,794	10,703
Ebitda	1,388	2,460	3,166	841
Ebitda margin	6.3%	6.9%	7.8%	7.9%
PAT	1,003	1,631	2,132	543
PAT Margin	4.5%	4.6%	5.2%	5.1%
ROE	22.6%	29.1%	28.0%	6.7%*

* Not annualised

Pre-issue and post-issue holding structure

	Pre-issue	Post-issue*
Shareholding pattern	Holding (%)	Holding (%)
Promoter & Promoter Group	87.50%	64.63%
Public	12.50%	35.37%
Total	100%	100%

* At upper price band

Key Performance Indicators

Product Category	Business Division	% of Revenue			
		Q1FY24	FY23	FY22	FY21
White Oil, waxes and jellies	PHPO	56.26%	54.96%	53.50%	44.64%
Automotive and Industrial oils	Lubricants	26.78%	25.03%	21.48%	27.38%
Transformer and Rubber processing oils	PIO	6.71%	9.51%	10.54%	12.68%
-	Channel partners	10.21%	10.50%	14.48%	15.30%

	% of Revenue			
	Q1FY24	FY23	FY22	FY21
Domestic Sales	35.43%	46.68%	60.24%	64.00%
Overseas Sales	64.57%	53.32%	39.76%	36.00%
APAC	76.33%	70.28%	61.84%	67.90%
Americas	10.31%	14.77%	19.59%	12.85%
Africa	10.37%	12.74%	14.80%	16.24%
Europe	3.00%	2.21%	3.77%	3.01%

Gandhar Oil Refinery Ltd

Key Risks:

- **Segment concentration:** Company depends significantly on their personal care, health care and performance oil business division and downturns in the industries addressed by this business division or an inability to manage sales by the business division effectively leading to any reduction in revenue from this division could adversely affect their business, financial condition and results of operations. Additionally, revenue from the consumer and healthcare industries contributes approximately 71% to the PHPO (Personal Care, Health Care, and Performance Oil) revenue and 30% to the total revenue. Therefore, any issues or downturns in the consumer and healthcare markets will impact the overall business.
- **Long term contract with customers:** Company does not have long-term agreements with their customers. Agreements with the key customers are generally renewed on an annual basis and the abrupt termination of such agreements, including failure to meet contractual obligations to supply certain minimum volumes of their products to such customers, could adversely affect their business.
- **Supplier's Risk:** Company obtains a substantial portion of their raw materials from a limited number of suppliers and the do not have long-term contracts with their suppliers. Agreements with company's major suppliers are generally annual contracts and may be terminated for uncured material breaches of the terms of the contract. The loss of any of the major suppliers could majorly affect the revenues of the company.
- **Overseas risk:** Overseas sales account for a significant portion of their revenues, in Q1FY24 the export volumes stood at ~65% of the total sales. Companies exports are particularly focused on the Asia-Pacific region and North America. Overall any problems or issue with a particular region will affect the revenue of the company.

Gandhar Oil Refinery Ltd

Strengths

Leading market share of the Indian white oils market with significant overseas sales: According to Report, the global white oil market is oligopolistic with a few players highly active in the market and the top 10 players account for 40-45% of the global white oil market. Gandhar Oil is India's largest manufacturer of white oils by revenue in FY23, including domestic and overseas sales. It is one of the top five players globally in terms of market share in the CY22. Company offers a diverse portfolio of over 440 products primarily across the PHPO, lubricants and PIO divisions. In addition to the scale of their operations, market share, overseas sales, range of product offerings and diverse manufacturing capabilities, company differentiates themselves from competitors based on their strategic focus on products for the consumer and healthcare end-industries which accounted for 30.22% and 7.89% in FY23 respectively.

Extensive and diversified customer base and a supplier base comprised of leading oil companies with competitive pricing terms: Consumer and pharma manufacturers prefer long-term relationship with established suppliers of specialty oils as spot purchases from distributors are cost inefficient and lead to erosion in margins. Company caters to an extensive customer base of 3,558 Indian and global companies. The PHPO division serves major clients like P&G, Unilever, and Marico. In the industrial sector, the company supplies lubricant oils to Gulf Oil and Adani Ports & SEZ. The PIO division's clients include Toshiba Transmission and Distribution Systems (India) and other leading manufacturers in transformers and power distribution. The % of customers placing repeat orders in the Q1FY24 and FY23, FY22 and FY21 was 83.74%, 69.11%, 68.86% and 66.37% respectively. Company procures a majority of their raw material from South Korea and the Gulf Co-operation Council Region ("**GCC Region**"). Their key suppliers in these regions include SK Lubricants, S-Oil, GS Caltex and other global base oil suppliers. Over time, they have transitioned to directly purchasing raw material from base oil suppliers from using intermediaries earlier.

	% of proforma consolidated Revenue			
	Q1FY24	FY23	FY22	FY21
Top 5 Customers	13.5%	14.5%	9.7%	8.1%
Top 10 Customers	19.2%	20.9%	15.0%	13.0%
Top 20 Customers	26.3%	28.0%	2249.5%	20.9%

In-house R&D capabilities: Company has an R&D facility located at their Silvassa manufacturing facility where they undertake the R&D activities to support their manufacturing activities. The R&D facility is registered with the DSIR. Company has leveraged their R&D capabilities to customize, design and develop bespoke products for their customers, such as a specialized oil for a hair serum product for a customer in the PHPO division and a customized automotive oil that can be used in engine oils in sub-zero temperatures for a customer in the lubricants division. Company has also developed and commercialized various specialized base ingredients for use in PHPO products, such as Vitamins A & D ointments, zinc-based ointments and pastes, skin-care creams and lotions and specialty formulated waxes.

Gandhar Oil Refinery Ltd

Strategies

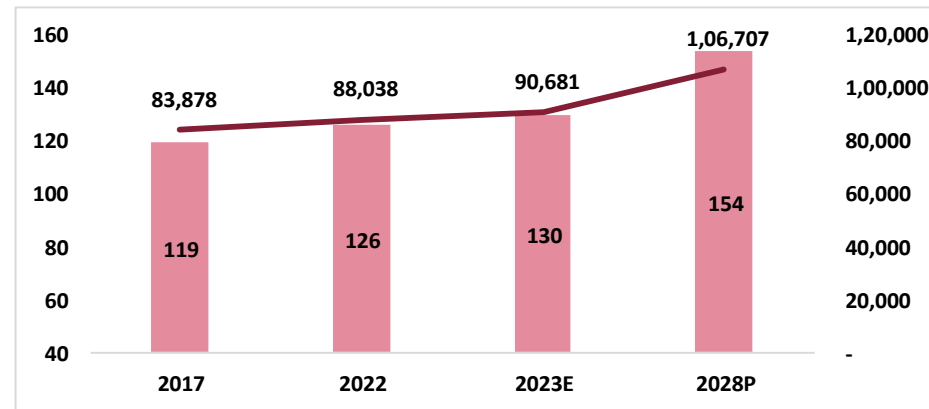
- **Enhanced focus on the consumer and healthcare end-industries:** . Company wishes to leverage their relationships with existing customers in the consumer and healthcare end-industries to expand their wallet share with them and look at acquiring new customers in these end-industries. Company is also in discussions with a global manufacturer in the consumer and pharmaceuticals end-industries to add them as a customer. End-use industries such as pharmaceuticals and consumer products are expected to grow strongly going forward driven by strong domestic consumption, favorable demographics, and government initiatives. **The consumer and healthcare end-industries accounted for 30.22% and 7.89%, respectively, of their pro forma consolidated revenue from finished goods sold for the FY23.**
- **Continue to increase overseas sales by strategically expanding product offerings:** Company is working towards increasing penetration in existing geographies and potential entry into new geographies based on current customer relationships to support their growth globally. As of June 30, 2023, company has catered to over 100 countries, including Indonesia, Bangladesh, Thailand, Australia, New Zealand, Russia in the APAC region; United Kingdom, Italy in Europe; Nigeria and Tanzania in Africa; and the United States in North America.
- **Strengthen customer base by growing existing customer business and acquiring new customers :** Company intends to strengthen their relationships with their existing customers and explore opportunities to grow by expanding the array of products and solutions that they offer to their customers, and to win new customer business by developing products and solutions aligned with their needs. The percentage of customers placing repeat orders in Q1FY24,FY23,FY22,FY21 was 83.74%, 69.11%, 68.86% and 66.37% respectively. Company will also look at diversifying their product offerings and moving up the value chain by expanding their contract manufacturing services for finished products to their customers.
- **Strengthen manufacturing and R&D capabilities:** Company is currently in the process of enhancing the production capacity of their Taloja Plant by an aggregate of 100,000 kL, out of which, 25,000 kl of incremental capacity is already commissioned by Oct-23. This enhancement of capacity is proposed to be funded out of their internal accruals and through external borrowings obtained by the Company. Company expects to complete the enhancement to their production capacity during the FY24. In addition, company separately intends to utilize Rs. 277.29 million of the Net Proceeds to invest in capital expenditure at their Silvassa Plant to enhance its production capacity by an aggregate of 18,840 kL to cater to the increasing demand for automotive oils. This plant will achieve 50% commercial production by FY25 and the remaining by FY26.

Gandhar Oil Refinery Ltd

Industry overview

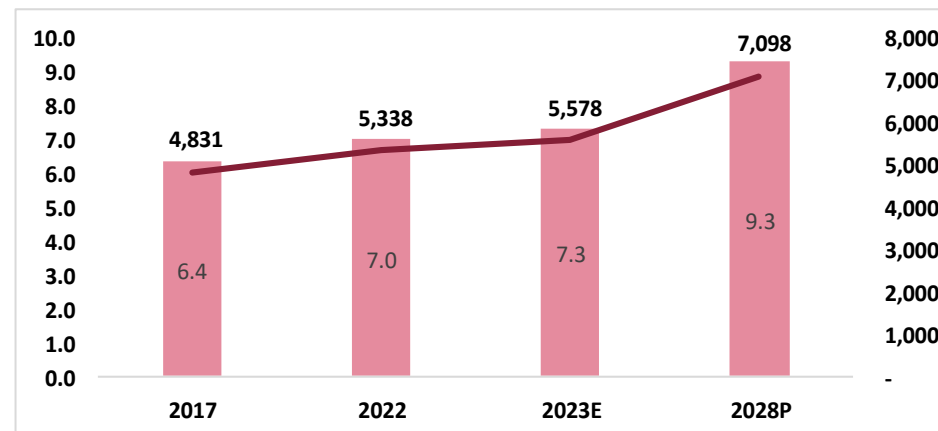
Global specialty Oil market

The global specialty oil market value, estimated at \$129.90 billion in 2023, is expected to grow to \$154.0 billion by 2028, at a CAGR of 3.5%. The specialty oil market is estimated to create an absolute incremental opportunity of ~\$24 billion over the next five years, driven by increasing consumption of specialty oils in different end-use industries such as consumer, pharmaceuticals, automotive, manufacturing, power generation, and others.



Indian specialty oil industry

The Indian specialty oil market is estimated to be \$7.33 billion in 2023 and reach \$9.30 billion by 2028, at a CAGR of 4.9%. In terms of volume, the market is estimated to be 5,578 kilo tonne (KT) in 2023 and reach 7,098 KT by 2028, at a CAGR of 4.9%.

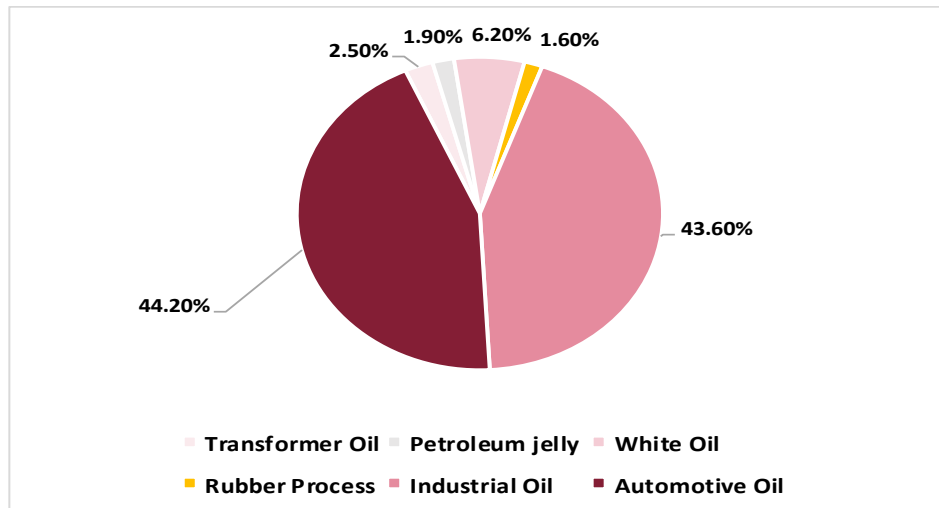


Gandhar Oil Refinery Ltd

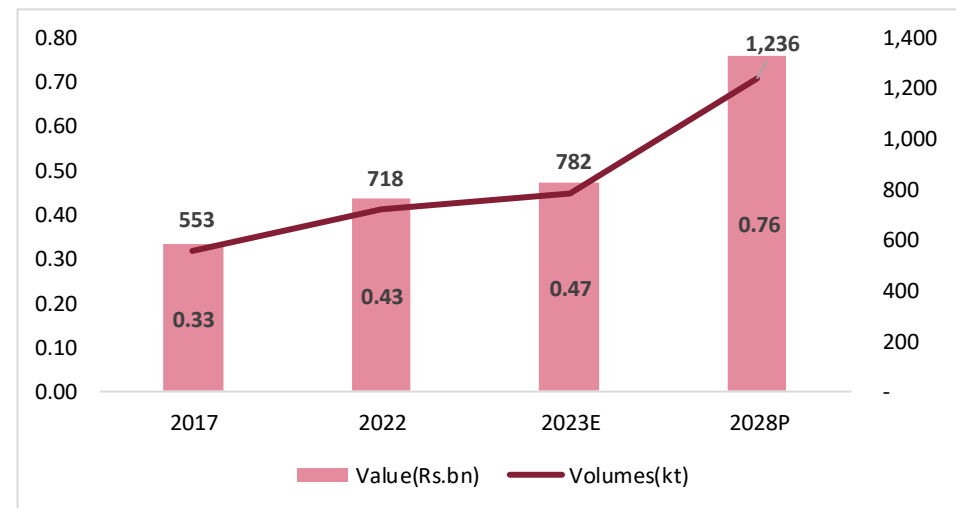
Industry overview

- White oil is expected to be the fastest-growing segment over the forecast period, given the favorable outlook for end-user industries amid rising focus on product safety and awareness about health and hygiene. In terms of market share, automotive oil holds the largest share, although the market is expected to provide relatively slow and sustained growth rate. Industrial oil represents the second-largest product category by market size.
- White oil, the fastest-growing segment of the Indian specialty oil market, is estimated to be worth \$0.473 billion in 2023 and reach \$0.759 billion by 2028, at a CAGR of 9.9%. In terms of volume, it is expected to reach 1,236 KT by 2028 from 782 KT in 2023, at a CAGR of 9.6%.
- One of the categories in this area that is growing particularly quickly is personal care and cosmetics. The market is anticipated to be driven by improving standard of living and rising demand for cosmetics.
- The other growing category is pharmaceuticals. Government initiatives such as the PLI scheme, expertise in low-cost generic patented drugs, quality service at a low cost compared with the US, Europe, etc., and strong domestic demand are the key drivers of the Indian pharmaceutical market.
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Indian specialty oil industry by product type



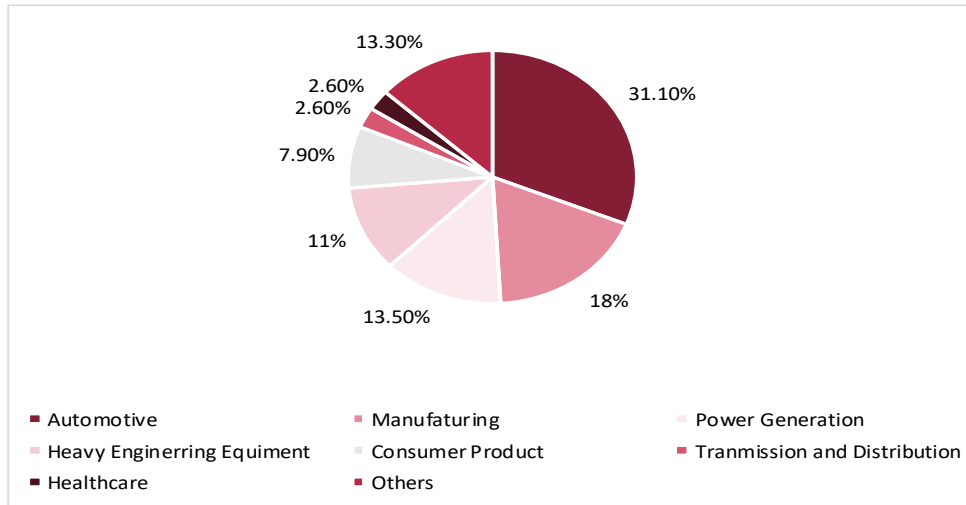
Indian White Oil Market



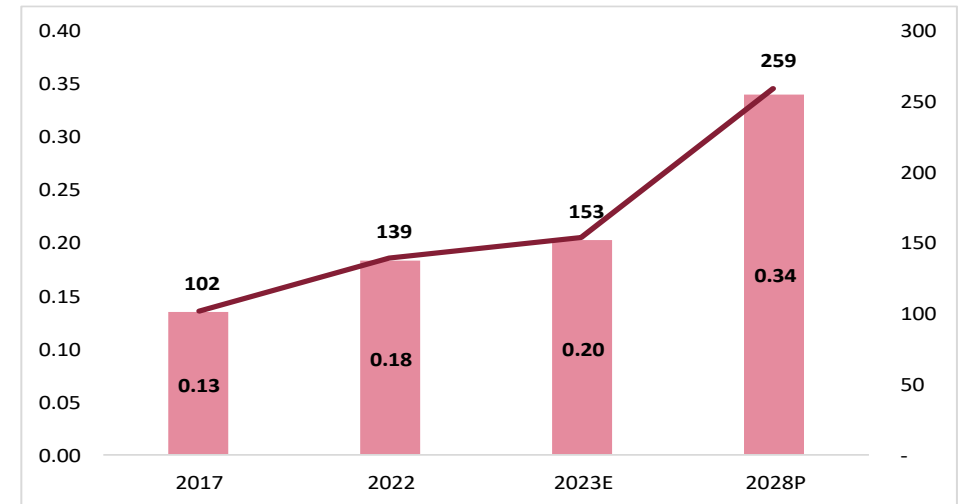
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Industry overview

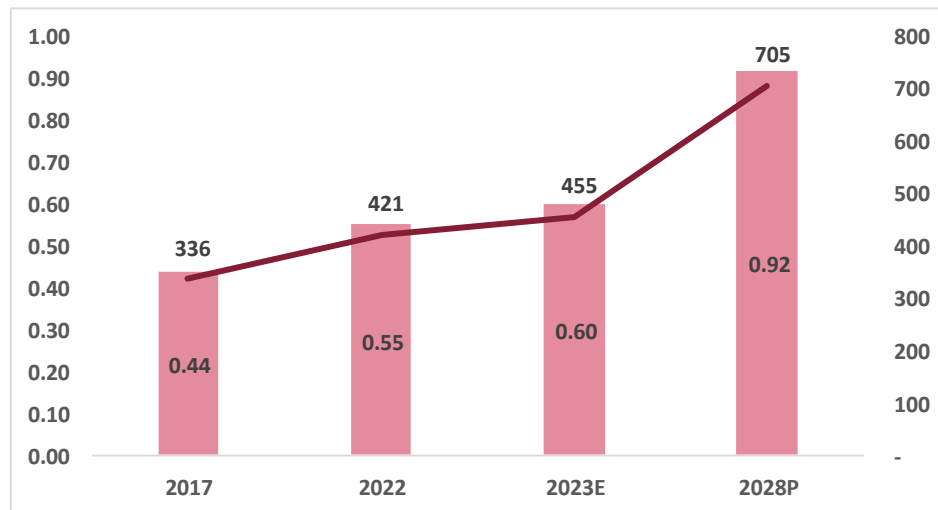
Indian specialty oil industry by end-use segment



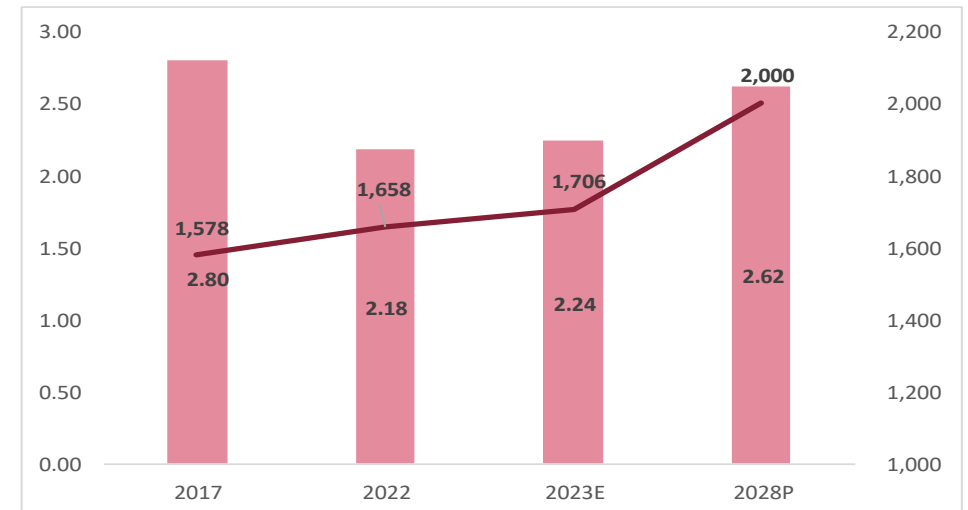
Healthcare segment in Indian specialty oil market



Consumer segment in Indian specialty oil market



Automotive segment in Indian specialty oil market



Gandhar Oil Refinery Ltd

Peers key financials and valuation matrix

Peers	P/E	Revenue	EBITDA	% EBITDA Margin	ROE	Exports
Gandhar Oil	7.8	40,794	3,166	7.8%	28.00%	53%
Savita Oil Technologies	10.8	36,290	3,360	9.3%	16.10%	20%
Apar Industries	30.0	143,520	12,670	8.8%	32.30%	47%
Panama Petrochem	8.0	22,490	3,090	13.7%	27.10%	40%
Galaxy Surfactants	24.2	44,430	5,680	12.8%	22.10%	46%
Privi Speciality Chemicals	222.1	160,78	1,880	11.7%	2.80%	13%
Rossari Biotech	40.7	16,560	2,230	13.5%	12.40%	74%
Fairchem Organics	32.7	6,480	720	11.1%	17.70%	2%

INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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DISCLOSURE

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