

Gandhar Oil Refinery India Limited

November 21, 2023



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 product suite comprised over 440 products primarily across the personal care, healthcare, and performance oils (PHPO), lubricants, and process and insulating oils (PIO) divisions under the Divyol brand. The 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 white oil market is the fastest-growing segment in the specialty oils sector, and Gandhar is India's largest manufacturer of white oils by revenue in FY23, including domestic and overseas sales, and is one of the top five players globally in terms of market share in the calendar year 2022. As of June 30, 2023, Gandhar's products were sold in over 100 countries across the globe. The company catered to over 3,500 customers in FY23, including leading Indian and global companies such as Procter & Gamble (P&G), Unilever, Marico, Dabur, Encube, Patanjali Ayurved, Bajaj Consumer Care, Emami, and Amrutanjan Healthcare, supported by its global supplier base and manufacturing operations in India and the United Arab Emirates. The pro forma consolidated revenue from operations grew at a CAGR of 40.59% between FY21 and FY23, which was one of the highest CAGR among selected specialty oil peers and the second-highest CAGR among selected specialty chemical peers.

Investment Rationale:

Gandhar increasing manufacturing capacity to meet rising volume in the Indian specialty chemicals industry:

- The white oil segment of the Indian specialty oil market is valued at INR 3915 crores in 2023, projected to reach INR 6330 crores by 2028 with a 9.9% CAGR. The expected volume is 1,236 KT by 2028, up from 782 KT in 2023 at a 9.6% CAGR. Key growth areas include personal care and cosmetics, along with pharmaceuticals.
- The Indian specialty oil market is estimated at INR 61053 crores in 2023, expected to reach INR 77461 crores by 2028, with a 4.9% CAGR. The projected volume is 5,578 KT in 2023, increasing to 7,098 KT by 2028 at a 4.9% CAGR. Automotive oil holds the largest market share.
- Gandhar, operating three facilities, plans to increase Taloja Plant's capacity by 100,000 kL, with 25,000 kL commissioned by October 2022. The funding will come from internal accruals and external borrowings. The company aims to complete the enhancement during FY24. Additionally, INR 277.29 million from Net Proceeds will be used to add 18,840 kL annual production capacity at the Silvassa Plant for automotive oil expansion.

Diverse customer base with increase repeat orders easing revenue concentration:

- Gandhar has a diversified customer base that comprised 3,558 customers during FY23. The customers include P&G, Unilever, Marico, Emami, Bajaj Consumer Care, Encube, Patanjali Ayurved, Dabur, Amrutanjan Healthcare, Supreme Petrochem, and other leading Indian manufacturers of pharmaceutical products in the PHPO division. In the lubricants division, customers include Gulf Oil, Adani Ports and Special Economic Zone, and other users of industrial machines and equipment. In the PIO division, customers include Toshiba Transmission and Distribution Systems (India) and other leading manufacturers of transformers, power distribution, and transmission companies.
- The percentage of customers placing repeat orders in the quarter ended June 30, FY23, and the Financial Years FY23, FY22, and FY21 was 83.74%, 69.11%, 68.86%, and 66.37%, respectively.

Continue to increase overseas sales by strategically expanding product offerings:

- Gandhar is actively working towards increasing penetration in existing geographies and exploring potential entry into new markets, leveraging current customer relationships to support global growth.
- Revenue from overseas sales, calculated based on Pro Forma Consolidated Financial Information, has shown substantial growth. It increased from INR 7,413.61 million or 36.00% in FY21 to INR 21,733.50 million or 53.32% in FY23, at a remarkable CAGR of 71.22%.
- Additionally, for the quarter ended June 30, FY23, overseas sales amounted to INR 6,905.58 million or 64.57%. The expansion strategy is primarily focused on maximizing the potential of existing customer relationships to increase wallet share across multiple jurisdictions.

Valuation and Outlook: Gandhar Oil is looking to benefit from i. The Indian specialty oil market CAGR of 4.9% to reach INR 77461 crores by 2028, and a volume CAGR of 4.9% too to reach 7,098 KT by 2028. ii. Increasing production capacity of its Taloja Plant by a total of 100,000 kL and an aggregate annual production capacity of 18,840 kL at the Silvassa Plant specifically for expanding the capacity of automotive oil. iii. Expansion of customers and increase in repeat customer orders. iv. Increase in overseas sales. The company has reported revenues of INR 40,757.24 million which represented a CAGR of 40.6% between FY21-FY23 which is one of the highest amongst the peers. Of the total sales overseas sales contributed 53.32% and domestic sales contributing 46.68% in FY23. PHPO and Lubricants business division contributed to 54.96% and 25.03% of total revenues while PIO and Channel partners contributed 9.51% and 10.50% respectively. The company reported EBITDA of INR 3166.2 million which represented a CAGR of 12.9% between FY21-FY23 with an EBITDA margin of 7.8% in FY23. The company's ROE and ROCE was reported at 32.3% and 41.2% respectively in FY23. The company's ROE was highest amongst peers in FY23. Strong positioning within the global and domestic white oil space coupled with decent valuations and healthy return ratios along with scope for growth from improving utilizations and capex could result in very healthy topline and bottom-line(nearly 1.5-2x) growth for the company, hence we recommend to subscribe to the issue.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	22207.96	-	1344.96	6.06%	1001.32	12.52	3.29	12.83
FY22	35433.18	59.55	2465.53	6.06%	1634.33	18.40	23.98	30.03
FY23	40794.41	15.13	3166.19	6.96%	2131.75	21.78	33.18	42.17

Issue Snapshot

Issue Open	22-Nov-23
Issue Close	24-Nov-23
Price Band	INR 160 - 169
Issue Size (Shares)	29626732
Market Cap (INR mln)	INR 16539.99

Particulars

Fresh Issue (INR mln)	INR 3020
OFS Issue (mln)	INR 1986.91
QIB	75%
Non-institutionals	15%
Retail	10%

Capital Structure

Pre Issue Equity	8,00,00,000
Post Issue Equity	9,78,69,822
Bid Lot	88 shares
Minimum Bid amount @ 160	INR 14,080
Maximum Bid amount @ 169	INR 14,872

Share Holding Pattern

	Pre Issue	Post Issue
Promoters	87.50%	64.63%
Public	12.50%	35.37%

Particulars

Face Value	INR 2
Book Value	INR 108.53.
EPS, Diluted	INR 21.78

Objects of the Issue

1. Repayment of loans
2. Capital Expenditure
3. Funding working capital requirements

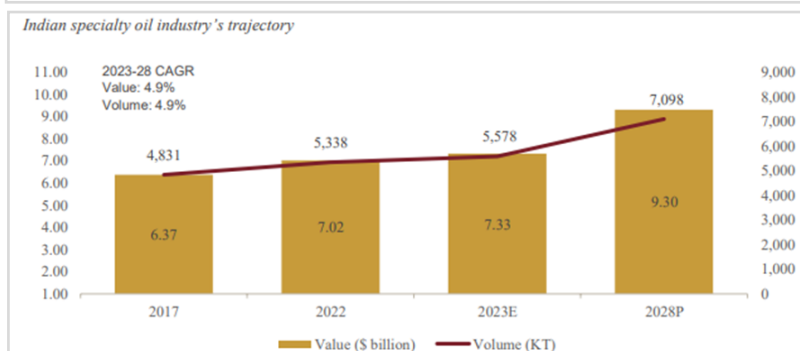
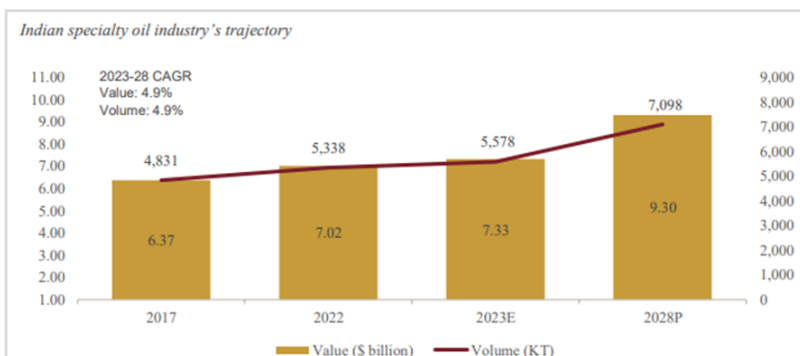
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Investment Rationale:

Gandhar increasing manufacturing capacity to meet rising volume in the Indian specialty chemicals industry: White oil, the fastest-growing segment of the Indian specialty oil market, is estimated to be worth INR 3915 crores in 2023 and is projected to reach INR 6330 crores by 2028, with a CAGR of 9.9%. In terms of volume, it is expected to reach 1,236 KT by 2028, up from 782 KT in 2023, at a CAGR of 9.6%. One of the categories experiencing particularly rapid growth is personal care and cosmetics. The market is anticipated to be driven by an improving standard of living and rising demand for cosmetics. Another growing category is pharmaceuticals. Key drivers of the Indian pharmaceutical market include government initiatives like the PLI scheme, expertise in low-cost generic patented drugs, quality service at a low cost compared to the US and Europe, and strong domestic demand. Key Indian white oil manufacturers export their products to customers across APAC, Europe, the Middle East, and America. Key importing countries in APAC include Indonesia, Vietnam, Bangladesh, Sri Lanka, and Australia. In Europe, companies export to countries such as Italy, Spain, Georgia, and Poland. In the Middle East and Africa (MEA), Tanzania, Kenya, Nigeria, South Africa, and Ghana are the top export destinations. Canada and the US are the major importing countries in America. African and Asian countries will continue to rely on imports due to growing end-use applications and the limited or non-existence of domestic manufacturers of white oils. Additionally, the Indian specialty oil market is estimated to be INR 61053 crores in 2023 and is projected to reach INR 77461 crores by 2028, with a CAGR of 4.9%. In terms of volume, the market is estimated to be 5,578 kilo tonnes (KT) in 2023, reaching 7,098 KT by 2028, at a CAGR of 4.9%. In terms of market share, automotive oil holds the largest share, although the market is expected to provide a relatively slow and sustained growth rate. Industrial oil represents the second-largest product category by market size. In order to meet the rising volume demand, Gandhar is looking to increase its manufacturing capacity. Gandhar currently operates three manufacturing facilities with a combined annual production capacity of 522,403 kL as of June 30, 2023, located in (i) Taloja, Maharashtra (the Taloja Plant), (ii) Silvassa, the Union Territory of Dadra and Nagar Haveli and Daman and Diu (the Silvassa Plant), and (iii) Sharjah, United Arab Emirates (the Sharjah Plant) to meet both domestic and international demand for our products. The company is in the process of increasing the production capacity of its Taloja Plant by a total of 100,000 kL. As of October 2022, the company has already commissioned an incremental capacity of 25,000 kL. The funding for this capacity enhancement is planned to come from the company's internal accruals and external borrowings obtained. The company anticipates completing the production capacity enhancement during FY24. Additionally, the company plans to utilize INR 277.29 million from the Net Proceeds to enhance its manufacturing capabilities. The aim is to add an aggregate annual production capacity of 18,840 kL at the Silvassa Plant specifically for expanding the capacity of automotive oil.



Gandhar has maintained long-standing relationships with several key customers, resulting in high customer loyalty. The percentage of customers placing repeat orders in the quarter ended June 30, FY23, and the Financial Years FY23, FY22, and FY21 was 83.74%, 69.11%, 68.86%, and 66.37%, respectively. The company's customer engagement, relationships, and certifications obtained by its manufacturing facilities demonstrate the strength of its reputation, the quality and consistency of its products, and the robustness of its operations, management, and technical capabilities. This provides Gandhar with a significant competitive advantage over new entrants in the industry.

Diverse customer base with increase repeat orders easing revenue concentration: Gandhar has a diversified customer base that comprised 3,558 customers during FY23. The customers include P&G, Unilever, Marico, Emami, Bajaj Consumer Care, Encube, Patanjali Ayurved, Dabur, Amrutanjan Healthcare, Supreme Petrochem, and other leading Indian manufacturers of pharmaceutical products in the PHPO division. In the lubricants division, customers include Gulf Oil, Adani Ports and Special Economic Zone, and other users of industrial machines and equipment. In the PIO division, customers include Toshiba Transmission and Distribution Systems (India) and other leading manufacturers of transformers, power distribution, and transmission companies.

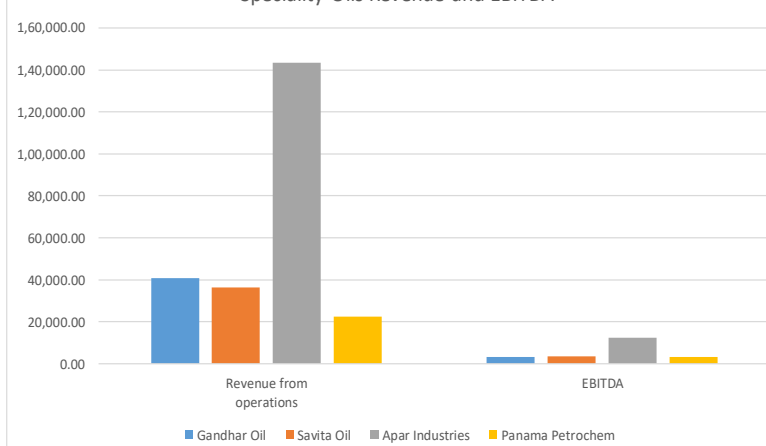
Continue to increase overseas sales by strategically expanding product offerings: Gandhar is actively working towards increasing penetration in existing geographies and exploring potential entry into new markets, leveraging current customer relationships to support global growth. Revenue from overseas sales, calculated based on Pro Forma Consolidated Financial Information, has shown substantial growth. It increased from INR 7,413.61 million or 36.00% in FY21 to INR 21,733.50 million or 53.32% in FY23, at a remarkable CAGR of 71.22%. Additionally, for the quarter ended June 30, FY23, overseas sales amounted to INR 6,905.58 million or 64.57%. The expansion strategy is primarily focused on maximizing the potential of existing customer relationships to increase wallet share across multiple jurisdictions. The company is keen on expanding overseas business to additional countries where the current presence is limited. As of June 30, FY23, Gandhar caters to over 100 countries, including Indonesia, Bangladesh, Thailand, Australia, New Zealand, and Russia in the APAC region; the United Kingdom and Italy in Europe; Nigeria and Tanzania in Africa; and the United States in North America. The plan is to leverage existing customer relationships to expand into manufacturing ingredients for key customers, especially in the PHPO division, catering to their products in other geographies such as Indonesia, Europe, and the United States. This strategic approach positions Gandhar to capitalize on emerging opportunities and strengthen its global presence.

Valuation and outlook: Gandhar Oil is looking to benefit from i. The Indian specialty oil market CAGR of 4.9% to reach INR 77461 crores by 2028, and a volume CAGR of 4.9% too to reach 7,098 KT by 2028. ii. Increasing production capacity of its Taloja Plant by a total of 100,000 kL and an aggregate annual production capacity of 18,840 kL at the Silvassa Plant specifically for expanding the capacity of automotive oil. iii. Expansion of customers and increase in repeat customer orders. iv. Increase in overseas sales. The company has reported revenues of INR 40,757.24 million which represented a CAGR of 40.6% between FY21-FY23 which is one of the highest amongst the peers. Of the total sales overseas sales contributed 53.32% and domestic sales contributing 46.68% in FY23. PHPO and Lubricants business division contributed to 54.96% and 25.03% of total revenues while PIO and Channel partners contributed 9.51% and 10.50% respectively. The company reported EBITDA of INR 3166.2 million which represented a CAGR of 12.9% between FY21-FY23 with an EBITDA margin of 7.8% in FY23. The company's ROE and ROCE was reported at 32.3% and 41.2% respectively in FY23. The company's ROE was highest amongst peers in FY23. Strong positioning within the global and domestic white oil space coupled with decent valuations and healthy return ratios along with scope for growth from improving utilizations and capex could result in very healthy topline and bottomline(nearly 1.5-2x) growth for the company, hence we recommend to subscribe to the issue.

Peer Comparison (Speciality Oils)

Metric/company	Units	Gandhar Oil	Savita Oil	Apar Industries	Panama Petrochem
Revenue from operations	INR million	40,794.40	36,304.40	1,43,521.50	22,487.20
Revenue CAGR (FY21-FY23)	%	40.6	34.7	49.9	24.7
EBITDA	INR million	3,166.20	3,345.90	12,269.50	3,089.70
EBITDA CAGR (FY21-FY23)	%	12.9	3.7	71.1	45.7
EBITDA margin	%	7.8	9.2	8.5	13.7
PAT	INR million	2,131.70	2,257	6,377.20	2,329.70
PAT CAGR (FY21-FY23)	%	15	-2.5	99.3	31.2
PAT margin	%	5.2	6.2	4.4	10.4
Gross margin	%	12.8	19.4	25.4	21.8
ROE	%	32.3	16.7	32.3	27.1
ROCE	%	41.2	23	49.6	34.4
Working capital cycle	No. of days	31	70	15	64
Net debt	INR million	1,226.80	-509.5	-1,946.50	-965.3
Net debt-to-equity	Times	0.2	-	-	-
Net debt-to-EBITDA	Times	0.4	-	-	-
Gross fixed asset turnover1	Times	17.4	-	10.8	-
Manufacturing gross margin spread	INR/KL	11,429.60	-	-	-

Speciality Oils Revenue and EBITDA



Gandhar Oil Refinery India Limited

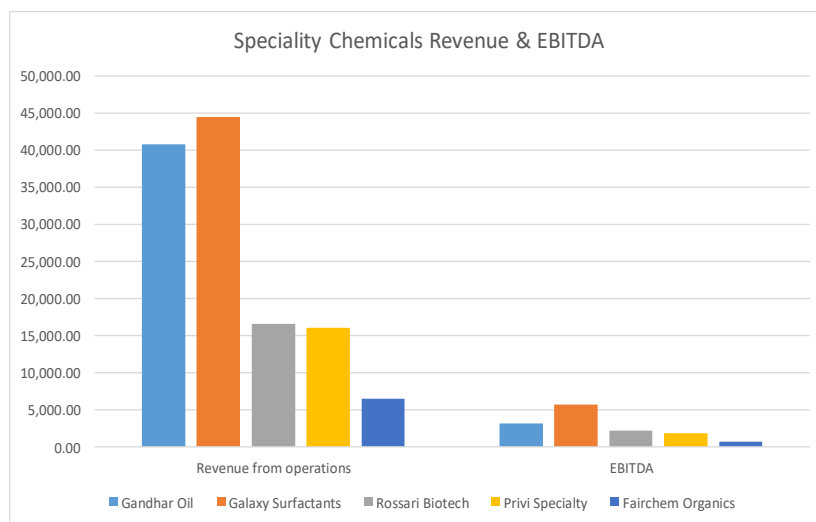
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IPO Note

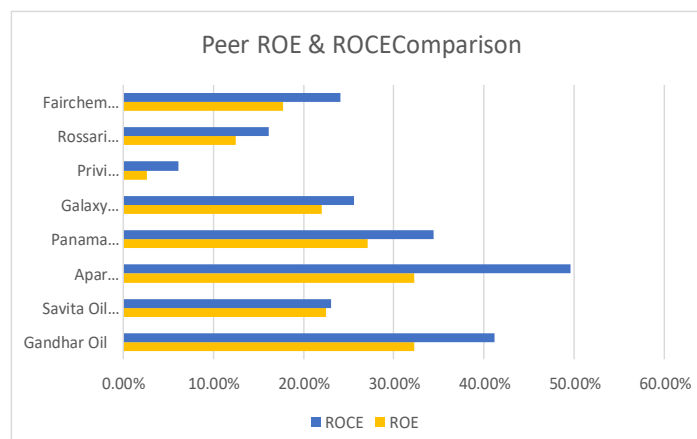
Peer Comparison (Speciality chemicals)

Metric/company	Units	Gandhar Oil	Galaxy Surfactants	Rossari Biotech	Privi Specialty	Fairchem Organics
Revenue from operations	INR million	40,794.40	44,452.40	16,558.80	16,078.20	6,480.40
Revenue CAGR (FY21-FY23)	%	40.6	26.4	52.8	12.2	27.8
EBITDA	INR million	3,166.20	5,682.80	2,230.20	1,859.20	723.3
EBITDA CAGR (FY21-FY23)	%	12.9	12.5	34.4	-5.4	2.5
EBITDA margin	%	7.8	12.8	13.5	11.6	11.2
PAT	INR million	2131.7	3,809.80	1,072.60	212.8	435
PAT CAGR (FY21-FY23)	%	15	12.3	15.8	-57.3	1.2
PAT margin	%	5.2	8.6	6.5	1.3	6.7
Gross margin	%	12.8	30.3	29.3	40.2	24.3
ROE	%	32.3	22	12.5	2.6	17.7
ROCE	%	41.2	25.6	16.1	6.1	24.1
Working capital Cycle	No. of days	31	68	73	156	72
Net debt	INR million	1,226.80	399.3	41	10,401	501.6
Net debt-to-equity	Times	0.2	0	0	1.2	0.2
Net debt-to-EBITDA	Times	0.4	0.1	0	5.6	0.7
Gross fixed asset turnover	Times	17.4	3.3	4.3	1.3	3.6



Peer Comparison (FY23)

Listed peers	EPS		P/E	ROE	ROCE
	Basic	Diluted			
Gandhar Oil	23.77	21.78	7.76	32.28%	41.19%
Savita Oil Technologies Limited	32.66	32.66	10.84	22.45%	23.02%
Apar Industries Limited	166.64	166.64	29.96	32.28%	49.57%
Panama Petrochem Limited	38.51	38.51	7.96	27.08%	34.42%
Galaxy Surfactants Limited	107.46	107.46	24.16	22.04%	25.59%
Privi Specialty Chemicals Limited	5.45	5.45	222.13	2.57%	6.10%
Rossari Biotech Limited	19.46	19.38	40.73	12.47%	16.15%
Fairchem Organics Limited	33.41	33.41	32.74	17.70%	24.11%



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IPO Note

Income Statement				Balance Sheet			
Y/E (INR mn)	FY21	FY22	FY23	Y/E (INR mn)	FY21	FY22	FY23
Revenue	22207.96	35433.18	40,794.41	Source of funds			
Expenses:				Equity Share Capital	160.00	160.00	160.00
Employee Cost	238.17	366.10	523.85	Reserves	3744.97	4284.87	5246.36
Total Expenses	21294.24	33442.40	38308.39	Total Share holders funds	4444.87	5406.36	7602.05
EBITDA	1344.96	2465.53	3166.19	Total Debt	787.43	1581.59	1,695.25
EBITDA Margin %	6.06%	6.06%	6.96%	Current Liabilities	6291.77	6932.67	7,811.25
Interest	357.73	317.28	515.08	Trade Payables	5231.77	5174.35	5847.72
Depreciation	114.15	151.04	165.09	Total Non-Current Liabilities	268.86	643.43	721.05
Other Income	215.88	255.89	223.50	Total Liabilities	11005.50	13178.27	16,134.35
PBT	1202.78	2252.33	2709.52	Application of funds			
PAT	1001.32	1634.33	2131.75	Fixed Assets	857.72	1888.53	1,747.48
EPS	12.52	18.40	21.78	Capital Work in Progress	215.72	440.11	726.69
				Cash and Bank	1002.28	1214.55	1082.41
				Other current assets	1304.23	998.34	1064.00
				Inventory	1986.09	3256.29	4,508.66
				Sundry Debtors	5138.10	4415.53	5,618.30
				Total Assets	11005.50	13178.27	16,134.35

Cash Flow				Key Ratios			
Y/E (INR cr)	FY21	FY22	FY23	Y/E (INR cr)	FY21	FY22	FY23
Profit Before Tax	1202.78	2252.33	2709.52	Growth Ratio			
Adjustment	752.80	499.20	503.36	Net Sales Growth(%)	-11.25	59.55	15.13
Changes In working Capital	-502.27	-525.02	-1759.18	EBITDA Growth(%)	116.04	83.32	28.42
Cash Flow after changes in Working Capital	408.55	1191.45	2230.69	PAT Growth(%)	685.53	63.22	30.44
Tax Paid	-6.24	-10.91	-564.14	Margin Ratios			
Cash From Operating Activities	1191.46	2230.67	1645.44	Gross Profit	14.69	14.82	15.47
Cash Flow from Investing Activities	-223.56	-1159.58	-734.29	PBIDTM	3.05	7.25	7.68
Cash from Financing Activities	-910.86	-41.28	-437.92	EBITM	2.62	7.06	7.27
Net Cash Inflow / Outflow	46.14	465.66	-128.32	PBT	0.63	5.41	6.35
Opening Cash & Cash Equivalents	84.99	131.12	596.79	PAT	0.51	4.51	4.61
Closing Cash & Cash Equivalent	131.12	596.79	468.46	Return Ratios			
				ROA	1.10	9.31	13.52
				ROE	53.20	39.36	32.28
				ROCE	61.23	46.96	41.19
				Turnover Ratios			
				Asset Turnover(x)	2.16	2.06	2.93
				Inventory Turnover(x)	11.43	11.58	13.52
				Debtors Turnover(x)	4.65	4.54	7.42
				Fixed Asset Turnover (x)	18.14	15.68	18.40
				Solvency Ratios			
				Total Debt/Equity(x)	0.33	0.18	0.29
				Current Ratio(x)	1.45	1.55	1.53
				Quick Ratio(x)	1.16	1.23	1.06
				Interest Cover(x)	1.32	4.28	7.90

Analyst Certification:

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