MANAGEMENT DISCUSSION AND ANALYSIS

Economic overview

Global economy

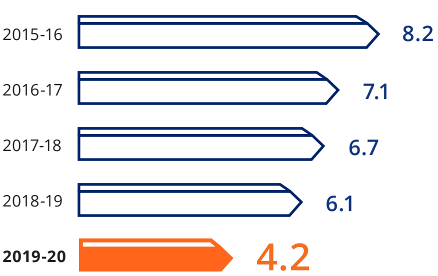
The financial year 2019-20 saw significant challenges for the global economy with growth of almost all economies of the world either slowing down or contracting. Weak global demand, low consumer and investor confidence, among other things affected manufacturing and trade. There was a spurt in activity in December and January, but the onset of the COVID-19 outbreak in China made recovery an uphill task. This caused multiple value chain disruptions and took activity metrics sharply lower across the board.

Indian economy

Economic growth for FY 2019-20 was impacted by global headwinds, liquidity constraints in the economy and structural impediments affecting consumer sentiments and investor confidence. During the year, India's growth rate declined to 4.2% as macro fundamentals continued to deteriorate.

NATIONAL GDP

(%)



Source: CSO

Growth and fiscal metrics deteriorated sharply in the last quarter of the year, given the focus on containing the COVID-19 pandemic and the ensuing fiscal policy measures. Current inflation trends remain elevated, driven by higher food prices around the start of the calendar year. A good monsoon and high levels of sowing bode well for agri output, though unseasonal rains and unavailability of labour pose risks. However, weak conditions are likely to keep inflation subdued in the medium term, allowing the RBI to continue and further its accommodative stance as and when required. The decline in crude oil prices is once again fortuitous for India, but the direct impact will be offset by weaker exports, reduced remittance inflows, as well as higher interest outflows given the heavy borrowing carried out in FY 2019-20. This started putting pressure on INR as well and it has been depreciating versus the US Dollar compared to the last quarter of FY 2019-20.

Industry overview

With India occupying the third position, the USA and China are two largest lubricant markets. India also ranks among the fastest growing lubricant markets globally. Overall lubricants market in India is estimated to be at ~2.7 billion litres, which is categorised into three broad segments of automotive, industrial including marine applications and process or white oils, with automotive and industrial segments together accounting for over two-third of the total market. Automotive engine oils form the largest pie of the Indian lubricant market (excluding process oils).

There are about 20 organised players in India's lubricant market and public sector oil marketing companies, together, cater to a significant portion of the market. Leading multinational and private domestic companies constitute the rest of the market and have been growing at a rapid pace by building brand and scale, launching innovative products and upgrading the various services offered to customers.

Enablers for India's lubricants market

- Growing GDP and domestic consumption
- Strong prospects of the rural economy
- Low per capita vehicle penetration in India
- Rising brand consciousness
- Advancement of engine technology
- Accelerated investments in infrastructure building
- Implementation of various industrial reforms
- Recent policy interventions to attract more manufacturing bases shifting to India

Automotive segment

Out of the overall lubricants market in India, automotive lubricants constitute a large pie. Automotive lubricants primarily cater to the segments of Commercial Vehicles (CVs), Passenger Vehicles (PVs) and two-wheeler segments. Diesel Engine Oils (DEO) contribute the most to the automotive lubricant market, followed by Motorcycle Oils (MCO) and Passenger Car Motor Oils (PCMO).

There is a direct correlation between demand for automotive lubricants and factors, such as on-road vehicle movement, growth of vehicle population and automobile sales.

Industrial segment

Lubricant products, such as hydraulic fluids, metal working fluids, and industrial greases and gear oils find application across multiple industries like construction, manufacturing, textile, power generation, mining, food processing, light-heavy engineering, marine operations and metal working. Unlike the automotive segment, these products are largely business-to-business in nature. Demand for these products is closely linked with several macro indicators, such as economic growth, core industrial production and health of corporates in India.

Infrastructure segment

In this segment, lubricant products are used in both on-highway vehicles as well as off-highway construction equipment. Prospects of this segment depend on the progress of the infrastructure sector in India.

Major developments in the lubricant industry

The year was tough for the automotive sector in India which witnessed a severe slowdown (worst in the past two decades) across all product segments. Moderating economic growth, limited availability of financing to purchase vehicles, rising congestion in bigger cities, and subdued consumption contributed to this weakness. Migration to BSVI emission norms also exerted pressure on auto manufacturers in terms of the investment entailed and the time needed to replace the older inventory. The situation worsened further in the last fortnight of March 2020 following the implementation of nationwide lockdown to prevent the spread of the COVID-19 pandemic.

Category	Sales in Units		
	April to March		
	FY 2019-20	FY 2018-19	% change
Passenger Vehicles (PVs)	2,773,575	3,377,389	(18)
Commercial Vehicles (CVs)	717,688	1,007,311	(29)
Three Wheelers	636,569	701,005	(9)
Two Wheelers	17,417,616	21,179,847	(18)
Total domestic sales	**21,546,390**	**26,266,179**	**(18)**

Source: SIAM

Total domestic sales includes quadricycle sales

Overall, domestic automobile sales declined 18% as compared to FY 2018-19. This had a bearing on the factory fills volumes across the lubricants industry as the demand for factory fills is directly linked to automotive production.

Among major products, CV sales declined the most (-29%) largely on the back of weakening economic activity and transition to the BSVI norms. Consequently, the demand for DEOs was impacted negatively mainly for the factory fill segment.

Passenger vehicles sales fell by 18% during the year as inventory management remained weak due to the transition to BSVI norms. Though the PCMO segment witnessed a broad-based decline, replacement demand cushioned the de-growth to some extent.

Sales of two wheelers fell 18% during the year due to continued pressure on both scooter as well as motorcycle volumes. Higher insurance premium for two-wheelers, slowing consumption demand and weak inventory management on the back of BSVI implementation were other challenges faced by the industry. As a result, the MCO volumes declined across the lubricant industry.

The Government of India continues to put significant emphasis on developing the country's infrastructure across both urban and rural areas. These developments augur well for the lubricant industry, which stands to gain from continued and robust demand.

Some of the key policy measures facilitating the prospects of these sectors include:

- Higher allocation to infrastructure development under the Ministry of Road (including NHAI) and Pradhan Mantri Gram Sadak Yojana

Gulf brand presence at Dun & Bradstreet Infra Awards 2019

- The Sagarmala Programme (involving investments worth around ₹8.5 trillion) to set up new mega ports, drive modernisation of India's existing ports, facilitate the development of 14 Coastal Employment Zones (CEZs) and Coastal Employment Units
- Adoption of new models, such as hybrid annuity model (HAM) to propel investments into the sector
- Modification of the Mines and Mineral Development and Regulation (MMDR) Act to usher in higher transparency

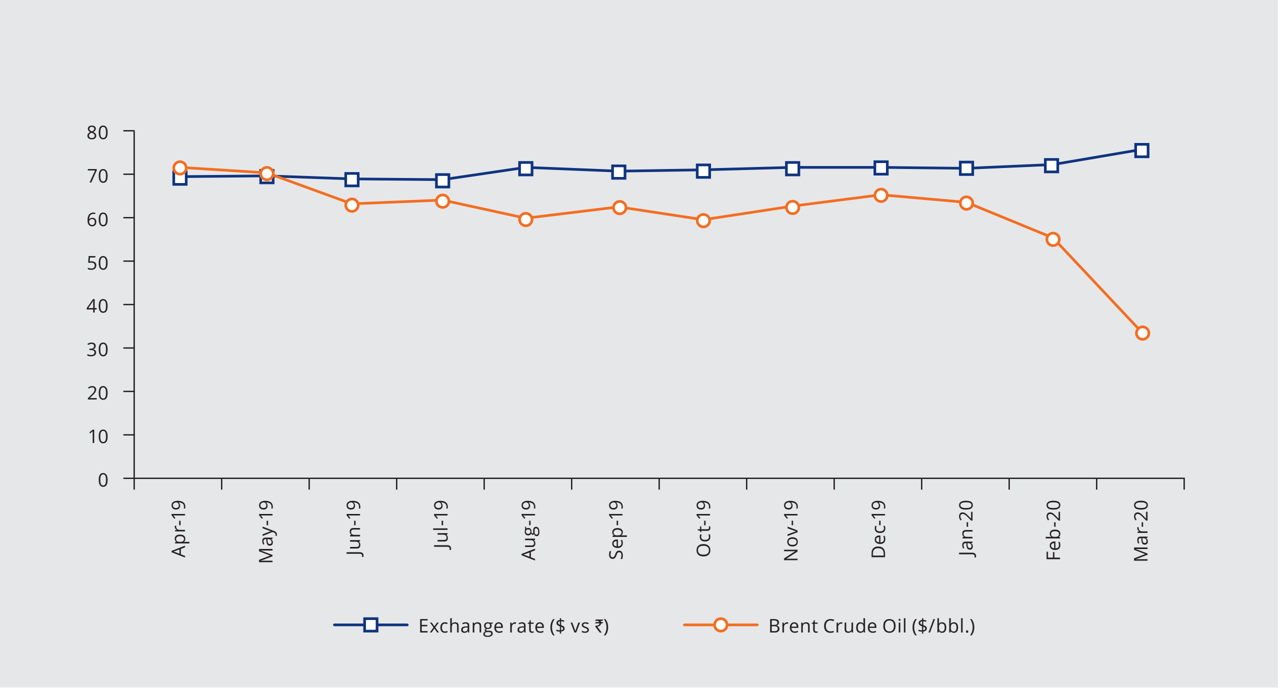
Impact of crude oil and the exchange rate movement

During the year under review, crude oil prices remained under pressure and hovered in a broad range of $55.46 per barrel to $71.61 per barrel till February 2020. The onset of COVID-19 pandemic in March 2020 and the ensuing lockdowns around the world led to a drastic fall in crude oil prices as the demand for automotive fuels came to a virtual halt. Base oil prices, as usual, followed in the footsteps of crude oil prices, though with a lag.

The INR weakened for most part of the year, staying well above the mark of 70 vis-à-vis the US Dollar (US$). While lower oil prices is a positive for the INR, weakening domestic economy as well as exports were key pressure points. By the end of the year, it had weakened significantly to 75.66 levels.

Gulf Oil maintained a strong vigil on these developments and took appropriate hedging and pricing strategies to protect its margins. The Company has entered into long-term contracts to source base oil, which reduces its vulnerability to sharp movements in raw material prices. The Company continues to explore ways of improving procurement, managing inventory, negotiating prices and optimising cost management.

CRUDE AND EXCHANGE RATE MOVEMENT



Gulf Oil: Opportunities and threats

Business	Opportunities	Threats
Automotive	a) Robust prospects of India's automobile sector and overall economic growth b) Adoption of new emission norms and enhanced focus on fuel efficiency c) Evolving technology as well as customer requirements d) Significant potential to ramp up rural penetration of automobiles e) Scope to improve the Company's market share in the PV and tractor segments f) Expansion of the Company's reach across various channels and geographies	a) High competitive intensity in the sector b) Possibility of aggressive pricing and discounts being offered by competitors c) Sudden and sharp volatility in prices of key raw materials d) Prolonged slowdown in domestic automobile sales
Industrial	a) Scope to deepen share of wallet with existing customers b) Opportunity to participate in the exponential growth of roads and infrastructure in India c) Immense potential in the defence sector d) Opportunity to take over entire lubricant management at plants of customers	a) Any slowdown in industrial activity b) Slower growth of the infrastructure sector
Exports	a) Potential to ramp up in existing markets and enter select attractive markets b) Chennai plant can cater to nearby countries more efficiently	a) Unprecedented high volatility in the forex market b) High competitive intensity

Company overview

The Company is among the top three lubricant companies in India among private players. It is also one of the fastest growing major lubricant companies in the country.

The Company has classified its business under three segments, namely automotive, industrial and exports. It has two state-of-the-art plants in India – one in Silvassa and the other at Ennore, Chennai. These plants manufacture quality products, which cater to both OEMs and B2B customers. The Company has a robust and widespread distribution network in India, spanning both physical as well as digital platforms.

Manufacturing Capabilities

Silvassa plant

- Capacity: 90,000 KL
- AdBlue® manufacturing capacity of 12,000 KL - now has the necessary approvals in place
- Key certifications include
  - ISO 9001:2015
  - ISO 14001:2015
  - ITAF 16949:2009
  - OHSAS 18001
- World-class blending plant
- High-speed automatic filling machine - OCME
- Superior automated blow moulding machines – Automa
- Fully Automatic Storage & Retrieval System (ASRS)
- Disaster management support
- An in-house quality control laboratory, which supports operations in India and globally

Chennai Plant

- Capacity: 50,000 KL
- Key certifications include
  - ISO 9001:2015 from day 1
  - IGBC Gold Certification
- State-of-the-art technology from ABB France - Simultaneous Metered Blender (SMB), Automated Batch Blender (ABB), completely piggable manifold, Drum Decanting Unit (DDU)
- Advanced ASRS
- A high-tech fire-fighting and disaster management system
- 100% provision for solar energy, rainwater harvesting and natural lighting throughout the day
- New R&D Centre – Gulf's biggest facility globally
- Customer Experience Centre, the first of its kind in India

Business review

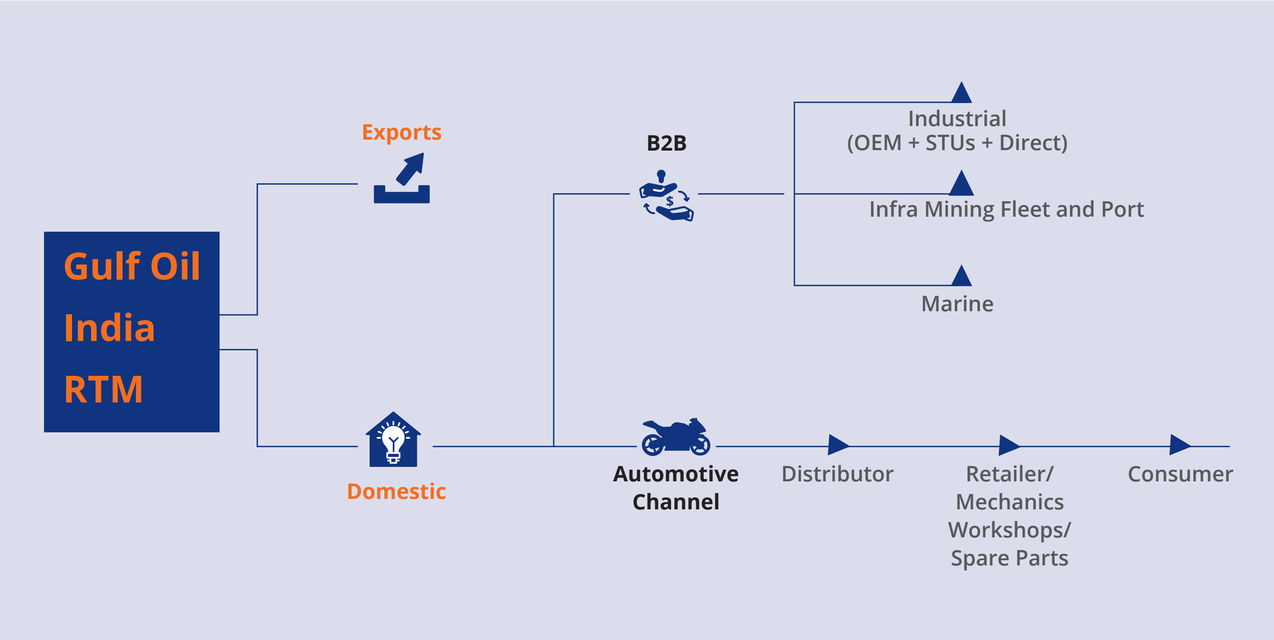
Amid several macro-economic challenges during FY 2019-20, the Company continued to gain market share across different segments. Sound execution of its strategy to expand reach, enhanced products and services offered to customers, innovative branding activities and continuous engagement with consumers, mechanics and retailers were critical factors driving market share gains. The Company continued to add new OEMs into its fold during the year in addition to further strengthening relationships with existing OEMs. It continued to outperform the industry and posted a resilient performance during the year.

For the full year, total volumes stood at 110,500 KL and were impacted mainly due to lower factory fill volumes throughout the year and owing to the complete halt of markets in the second fortnight of March 2020, following the implementation of the nationwide lockdown. Typically, the fourth quarter remains one of the strongest for the Company, amid incentive schemes closures and sale activities. However, the trend was reversed this year owing to the pandemic-induced lockdown. Excluding these two major challenges, the Company would have posted healthy growth in volumes as well as revenues for the full year. This is a clear outperformance to industry, which declined 5-6% in terms of volume (as per our internal estimates), and competition.

Gulf presence in Auto Expo 2020- Piaggio Stall

Once again, this performance demonstrates the inherent strength and resilience of Company's business model. Its ability to think and act in a swift manner continues to hold the Company in good stead even in these trying times.

ROUTE TO MARKET (RTM)



Automotive segment

1) **Bazaar**

During the year, the Company further grew its reach in this channel – which forms over a third of the total lubricant market in India (excluding process oils). The Company's retail outlets stood at 70,000+ and over 300 auto distributors and 30+ depots.

The Company continued to grow in the rural markets and expanded its base of recently launched Gulf Rural Stockists (GRS) and has 1,000+ GRS catering to 10-15 rural outlets each in their area. This structured approach to address rural distribution more effectively helped the Company register a very good growth in rural India during the year. The Company has made further progress on the Gulf branded Independent Workshops (IWS) called 'Gulf Bike Stops' for bikes and 'Gulf Car Stops' for cars. These channels continued to witness healthy momentum during the year, allowing the Company to push its new launches as well as premium products. The total number of bike stops stood at 8,000+ and the number of car stops stood at over 2,000 outlets during the year. The Company has a market share of about 7-7.5% in the Bazaar segment.

During the year, the Company launched the BSVI range of oils for specific OEM customers, such as Bajaj (MCOs), Ashok Leyland (CVs), Piaggio (three wheelers), among others. It is working with other OEM customers to launch more bespoke products. Additionally, Gulf Oil also offers several BSVI-ready products for universal customers from MCOs and PV segments.

Gulf Oil continued to engage with its channel partners and distributors in innovative ways during the year, besides continuing with the regular programmes. To attract new retailers to its universe, the Company used the Unnati loyalty plus programme as a strategic tool. It gave wild card entry to some strategic retailers into this programme and garnered extremely favourable response from them. Similarly, Gulf Oil moved its GRS stockists programme to an app, allowing sellers in GRS to gain all information about the customers and capture the orders efficiently.

The Company progressed well on its plan to digitalise its value chain. Some of the prominent initiatives include integrating coupons on packs into QR codes to provide benefits directly into the mechanics' accounts and plugging the leakages. Sales force automation was initiated by leveraging on the mobile apps, which are integrated to the Company's customer relationship management platform, Gulf Connect. It has also started drawing insights around customer demand and preferences by using the database of mechanics more optimally. These initiatives helped Gulf Oil create significant traction in the PV segment.

Personal mobility

The Company put up a resilient performance in this segment during the year. The performance could have been better but for the overall market conditions aggravated by the lockdown. However, in the focused segment of PCMO, the Company has still recorded ~20% growth during the year amid tough conditions. It continued to invest in developing innovative products, enhancing reach and strengthening all-round branding and marketing campaigns.

Gulf Oil has joined hands with several online portals, such as Zomato (for Zomato riders), Ola (for their bikes), garage-cum-service aggregator – Pitstop (for doorstep delivery vans), couple of garage aggregators (for passenger cars) and also listed its products on Amazon.

Overall, the Company managed to retain its premium positioning in the market despite some discounting by few players. It gained market share in PCMO segment and maintained share in the MCO segment. Replacement demand remained on a solid turf for most part of the year.

Commercial vehicle oils/DEO

Demand remained weak in this segment during the year on the back of several macro challenges. Freights were also affected due to the lockdown and could take another couple of months to normalise. Overall demand was impacted by slowing economic activity and the pandemic crisis towards the end of the year.

Notwithstanding these tough times, Gulf Oil continued to launch future-ready products during the year. It undertook extensive validation of its BSVI engine oil on heavy duty commercial vehicles and light commercial vehicles in Indian operating conditions. This exercise was conducted independently as well as in partnership with its OEM customers. This was followed by launch of BSVI engine oils across the segments in various grades. The Company was among the first movers to launch BSVI CV oil in India, in partnership with Ashok Leyland and Piaggio.

The Suraksha Bandhan campaign remained strong and was featured in the Guinness book of records for collection of 20,000+ messages on postcards.

The Company has been trendsetter in extending engine oil drain interval for heavy duty trucks in India for the past 15 years. It is now looking to extend this leadership in tractors as well and is undertaking extensive engine oil field validation in different regions. The Company is looking to launch tractor engine oils that will meet the current TREM III emission standards as well as the upcoming TREM IV emission standard.

With the implementation of BSVI norms, AdBlue® solution will be witnessing increased demand momentum. This solution helps vehicles meet BS IV emission standards and is a pre-requisite for BSVI vehicles across all heavy-duty trucks and buses as well as passenger vehicles. The Company has set up a plant for AdBlue® at its Silvassa facility and will also set up one facility in Chennai for this product. Thus, it is fully geared up to capitalise on the significant opportunity for this product.

2) **OEM franchise workshops**
   This segment grew in double digits during the year and remains an important growth driver for the Company. On one hand, existing OEM tie-ups witnessed healthy momentum, while on the other hand, the Company continued to add marquee names to this business. It renewed three multi-year OEM contracts in FY 2019-20, namely, Mahindra and Mahindra, Swaraj and Ashok Leyland. New additions included the likes of Piaggio for all oils, including BS VI and BMW, Hyundai, Kia Motors, among others for AdBlue®. The growth from these new additions will be reflected in the Company's performance FY 2020-21 onwards as the markets stabilise.

Industrial segment

The Company continued to strengthen its distribution network (direct and indirect distributors) to grow this business. Currently, its industrial network includes 200+ direct industry accounts and 50+ industrial distributors. The Inner Circle Distributor programme continued to grow at a healthy pace. Gulf Oil's market share in the industrial business is estimated at 3-4%. As the Company has a relatively lower market share in this segment, for the past few years, it has identified this as a major focus area.

Notwithstanding the presence of multiple macroeconomic challenges, this business clocked-in sound growth in FY 2019-20. This growth was an outcome of the Company's efforts to strengthen its two core Customer Value Propositions (CVPs). One is to reach the customer and the other is to enhance sector specific knowledge of its people. Sector expertise is being utilised to understand the need for the customers, reduce their downtime and increase efficiency of their tools, machines and processes. The Company has stepped up efforts to cross-sell and upsell across its products. Both distribution and direct business channels have grown at impressive rates during the year. Focus on premiumisation of is product portfolio is a prominent enabler of both growth and margins of this business.

The Company is developing new product SKUs as per the applications undertaken by customers. It developed synthetic grade products, PEA carbon cleaner, semi-synthetic gear oil and specialty greases. The Company is undertaking total plant lubrication management for some of its key customers and believes this sub-segment holds immense promise.

Specialty grease, the Company's other premium range of products performed well on the back of buoyant demand from domestic steel and coal companies.

At Gulf Oil, training, technical seminars and customer meets are on-going activities of this business. The Company engages with its customers and industry influencers by participating in prominent industrial exhibitions as well as customer-specific training programmes. Such programmes extend to customers, technicians, dealers, retailers and other stakeholders.

Infrastructure, mining and fleet segment

The Infrastructure, Mining and Fleet (IMF) segment grew to high single digit during the year. This business continues to make inroads into tier-2 and tier-3 cities of the country. The Company has gained market share from peers, expanded into newer sectors and is growing its large, flagship accounts at a healthy pace. Gulf Oil has 500+ marquee customers in this segment, including industry heavyweights such as Larsen & Toubro, Dilip Buildcon, Punj Lloyd, Oriental Engineers, Shapoorji Pallonji and Kobelco. Four new OEMs were added during the year, namely, Putzmeister, Doosan Bobcat, The Robbins Company and Leibor.

The Company is consolidating its infrastructure business and expanding its reach. An important growth driver for this business is the tie-ups with leading companies. It is also making large investments in technology to achieve higher operational efficiencies to further enhance servicing delight for customers.

Exports segment

The Company continued to focus on exports as an opportunity to grow volumes. The Company is currently exporting high-end products in Personal Mobility segment to a few Southeast Asian countries. The Company has been approaching Indian automotive OEMs who are exporting their vehicles to various continents to enable export of lubricants approved by them to these countries and were successful in starting exports to ~15 new countries.

Driving business continuity during the lockdown

The COVID-19 pandemic has significantly affected social and economic activities worldwide and as a result, impacted the operations and results of the Company partially during the last quarter of FY 2019-20. Management took necessary measures to comply with the directions issued by the local and state government authorities to prevent and contain the spread of the virus, including temporary shut-down of its plants, offices and depots during the lockdown period. The Company has since resumed operations in a phased manner as per the directives and approvals received from the respective local or government authorities.

As an organisation, Gulf Oil quickly geared up for these challenging times, keeping 'Safety First' as its prime focus and ensuring that all the health and hygiene measures, as per guidelines issued by the authorities, are adhered to at its plants, warehouses, offices and for employee movement. Its focus and efforts during these last few months to continue to maintain strong connect with its trade partners, B2B customers and OEMs and their dealerships and even tapping into new business development initiatives were successful to deliver higher customer satisfaction levels and also build a strong pipeline for the future. During the lockdown, the Company took many pro-active measures to ensure continued supplies to agriculture, infrastructure projects and other essential service providers with swift and flexible actions. The Company is optimising its approaches to meet the demand that is re-emerging as India moves into the unlocking mode, some pent-up demand can be expected as markets open up.

Management is of the view that considering the nature of its business operations and the existing customer and supplier relationships, impact on its business operations, if any, arising from COVID-19 pandemic is expected to be temporary and with the gradual lifting of lockdown, the Company's business will improve while the impact on future operations to a large extent depends on how the pandemic develops or gets controlled and its resultant impact on overall economy and businesses.

Outlook

Given the evolving situation, it is difficult to assess the exact impact of the outbreak on growth in economic activity. If the spread of the virus is contained within a reasonable time, impact on growth is likely to be for the short term and it could recover in the second half of FY 2020-21. Stimulus measures announced by the RBI and the government should help counter the impact on growth to a certain extent.

While the immediate impact of disruption is negative for India in the near term, once the spread is contained, India stands to benefit. Disruption in global supply chains caused by the contagion has highlighted the risk of overdependence on a single country. Thus, over the medium to long term, many global MNCs are likely to consider diversifying their manufacturing operations from China, and India could be a likely beneficiary, given the low corporate tax rate, skilled population, relatively low wages and a large domestic market.

While the pandemic scenario is still evolving, the country is experiencing graded exit from the lockdown, as the recovery rate from the infection continues to be encouraging. At present, ~80-85% of the Company's retail markets are open fully or partially in India with ~90% of Gulf Oil's distributors being open for operations. This means there should be gradual improvements in volumes going forward. Given the fact that lubricant is a semi-essential product, the demand is likely to recover once the overall situation starts to normalise and the movement of vehicles both for commercial activities and personal transportation improves while the industrial activity starts picking up again. The Company believes that there is some pent-up demand in the system, which will continue to spur volumes in the medium term. Segments, such as agriculture, DEO, infrastructure and MCO are witnessing some demand upswing. However, it will take some time for the demand to reach pre-pandemic levels.

In FY 2020-21, the management remains confident of performing better than the industry, which is estimated to register a double-digit decline. The Company will continue to grow its distribution network – including partnerships with key e-commerce and other important players in the digital space. It will also keep fostering new strategic partnerships with OEMs going forward. The major emphasis will continue to be on cost optimisation and digitalising processes to protect EBITDA margins, among others.

Automotive segment

Automotive sales are witnessing marginal demand coming back in quarter one of FY 2020-21 as retail and OEM workshops or dealerships explore partial openings in select markets. Over the medium term, improvement in rural demand, favourable monetary policy stance and supportive regulatory environment would be key enablers for demand recovery. Gradual improvement in auto sales will also aid demand recovery for lubricants.

Personal mobility

In the post-pandemic world, rising emphasis on social distancing could propel many first-time buyers to purchase compact cars and two wheelers, and move away from public transport. Healthy momentum in replacement demand augurs well for both lubricant and battery products. Strong rural cash flow following good monsoon, financial stimulus by the government and comparatively lesser impact of COVID-19 in the semi-urban and rural markets are big positives.

These factors augur well for the Company's personal mobility segment. This segment accounts for ~22-23% of Gulf Oil's sales, with two-wheelers commanding a majority share. Management expects this segment to grow as consumers are shifting to personal mobility. Gulf Oil is focusing on increasing its market share in the passenger car segment with additional focus on the same as it has a very low market share currently.

The Company will continue to grow its two-wheeler battery business by optimising the potential of its existing and new distribution network. It is focusing on growing this business by 30-35% over the next three to four years.

Commercial vehicle oils/DEOs

Gulf Oil is benefiting from a pick-up in demand in the agricultural segment (15% of the DEO segment). The Company will leverage its tie-ups with Mahindra and Swaraj to capture the incremental demand. The CV segment though has not witnessed much demand recovery as yet. Thus DEO sales are likely to remain under pressure in the near term.

However, the long-term prospects of this segment remain intact with gradual improvement in the construction and the infrastructure segment, stronger replacement demand, growing operational efficiency in transportation, logistics and supply chain activities and demand for BS VI compliant vehicles. Gulf Oil is among the leading players in this segment and will continue to focus on further expanding its market share. Providing distinct, need-based products and a growing distribution network will be the key focus areas for the Company. Similarly, AdBlue® has been a prime beneficiary from the implementation of BS VI norms in 2020.

Industrial segment

In industrial segment also, the Company has relatively low market share and sees immense potential for growth across categories and sectors. The Company is looking to make further inroads into the auto, auto components, manufacturing and metals sectors within the industrial segment. It is exploring avenues to grow existing products as well as step up the share of value-added products over the next few years. The demand for Whitmore special greases, metal working fluids, long drain hydraulic oil and synthetic oils is likely to remain healthy, going forward.

The Company will focus on growing its dealer network, enhancing customer base, sector specific products and services, achieving higher stability and volume growth and ramping up the total lube management contracts for the manufacturing plants of customers.

Infrastructure, mining and fleet segment

The demand from infrastructure sector is picking up as work on projects recommissioned at many sites. Most of the segments in this business are classified as essential services and did not witness major direct impact from the lockdown. However, unavailability of labour, ancillary and other services needed to continue the business had some bearing on this segment. As the situation normalises, this segment will be among the early beneficiaries.

Going forward, favourable government policies to push infrastructure growth and improving economic activity will act as key catalysts for this sector. The Company will continue to focus on growing the wallet share of existing clients and add new clients to the business. It has put in place dedicated teams to grow in each of these sectors and is looking to tap into all lucrative opportunities; and drive process efficiencies to achieve profitable and sustainable growth.

Exports

With the addition of capacity post starting Chennai plant, the Company's focus on exports is increasing. Exports of products are expected to expand along with Indian OEMs exporting their vehicles to various parts of the world.

Managing risks in a dynamic business landscape

Gulf Oil has an all-encompassing risk management policy in place. It covers all types of risks, including corporate risk (strategic and residual risk), operational risk (specific business and functional risks, including economic and market risks) financial risk, human resources (HR) risk, legal and compliance risks, among others.

During the year under review, the Company further refined this policy to incorporate recent developments in the external environment. The prominent risks and mitigation strategy is summarised in a table.

Risk	Mitigation strategy	Key stakeholders
Slowing demand in key business segments Some of the segments the Company operates in are highly cyclical, exposing the Company to high volatility in demand. Overdependence on any of these segments, slowdown in demand, along with rising competitive intensity can affect the Company's performance.	Gulf Oil is focusing on achieving an optimum mix of products and business segments to generate better margin and high growth.	Business functions
Constant upgradation in technology Technological upgrades are disrupting businesses across industries with an increasing focus on achieving higher efficiency and launching environment-friendly products. Any delay in adapting to these trends can adversely affect the Company's performance.	The Company tracks these developments regularly and responds to them swiftly. Its products imbibe superior and latest lubricant technology in line with global standards.	Technology, Global R&D
Rising prominence of electric vehicles Growing acceptance of electric vehicles around the world could have some bearing on demand for lubricants. In India, though, broad-based adoption and penetration of electric vehicles is still some time away given the issues around infrastructure for maintaining them, high cost issues, limited government funding and slower regulatory push. The company perspective is that the overall lubricant demand is sizable and will continue to grow in India, as these challenges around EV's exist in the future. The Company's inability to diversify in a timely manner can put some segments of the business to long term risk.	Gulf Oil is increasing market shares across the core lubricant segments in India and is also establishing a robust diversification strategy to capture opportunities related to allied products and electric vehicles value chain. Initiatives taken by Gulf Oil International to develop EV fluids and diversification into allied business areas will also help mitigate this risk.	All stakeholders
Volatility in base oil prices and the INR Sudden, adverse movements in crude oil prices and consequently in base oil prices could adversely affect the profitability of Gulf Oil. Gulf Oil has more imports as compared to exports and hence it is vulnerable to adverse movements in the INR.	The Company has put in place a robust hedging policy and monitors it to make timely corrections, if needed. It has also established several options for sourcing raw materials and is focused on adding new vendors to keep pricing under check.	Procurement and Finance teams

Risk	Mitigation strategy	Key stakeholders
Inability to maintain robust IT systems Any delay on the Company's part to maintain and upgrade high quality, timely and reliable MIS systems can affect its decision-making process.	The Company is adopting best-in-class, digitalised solutions across business segments to stay ahead of the curve and deliver superior service to its customers.	IT department
Inability to keep teams motivated Employees with low morale cannot contribute to the success of the Company. Besides, they also tend to change organisations frequently. Such a scenario can affect the Company's ability to gain market share.	Gulf Oil is committed to provide a growth-oriented environment to its people. It undertakes several initiatives to motivate, retain and attract talent and has well-defined people policies in place.	Board of Directors, HR department
Weakening of brand reputation Weakening share of voice and falling brand recall is a key risk and can affect the Company's prospects.	Gulf Oil invests continuously in strengthening its brands, improving brand scores and creating high recall. It also undertakes brand tracking exercise regularly.	Marketing department
Inability to comply with regulations and/or maintain high levels of governance Any violation of regulations causes reputation risks and impacts the Company's ability to do business, besides affecting valuations. Weaknesses in tracking regulations, enforcing compliance and audit can lead to breaches and loss of reputation.	The Company follows strict adherence to all applicable regulations and best-in-class governance practices.	Board of Directors, Legal and Compliance departments

Empowered human assets

Salient features of the Company's people strategy:

i. Nurture a talent pipeline

ii. Instil leadership traits in people

iii. Develop a high-performance culture

iv. Drive the organisation forward

The Company is committed to undertake the requisite measures and initiatives to continue providing its people with a growth-oriented environment where they can upskill themselves and become future-ready.

The Company operates in an ethical and trustworthy manner and imbibes its values in employees through policies, such as code of conduct, awareness of the 'Prevention of Sexual Harassment at Workplace Policy' (POSH). There has been no complaint of sexual harassment at the workplace in FY 2019-20. The Company also consciously nurtures gender diversity and women constituted 6% of the total workforce during the year.

The Company undertakes regular communication through townhall and various digital platforms, such as posters, danglers, communication meetings and e-mailers. The employee intranet portal acts as a credible platform for employee engagement and connectivity.

During the COVID-19 pandemic and subsequent lockdowns, employees' safety was of paramount importance for the Company and it has undertaken all required measures at its locations, including work from home for most of its employees at office locations. At plant and warehouses locations, all safety measures were taken to provide safe working environment to people. With most of the employees having laptops and other connectivity already provided to them over the past two to three years, shifting to work from home environment during these times was very smooth and the #NewWayForward has truly been implemented here.

Embracing digital HR processes

- The Employee Self Service (ESS) platform enables employees to conduct their daily business on the go
- 'Align Strive Perform Inspire Reward Enable' (ASPIRE), the Company's web-based performance management system, enables managers and employees to conduct periodic role and performance reviews.

Rewards and recognitions

The Company drives various rewards and recognition programmes. The passion and perseverance of its teams are recognised and appreciated through various rewards and recognition initiatives. 57 employees were felicitated under the 'Long Service Award Programme' for their loyalty and dedication towards the Company in FY 2019-20.

Employee benefits programme

The Company has introduced a 'Critical Illness Cover' for all its employees to support the additional medical expenses on account of any critical illness. It covers both Mediclaim and an optional top-up cover for employees, their families and parents. The term insurance and personal accident cover also continue to be in place.

Capability building

At Gulf Oil, capability building is an ongoing process. The Company develops and implements regular training programmes across different modes, such as classroom sessions via the Gulf Oil Training and Development (GOLD) Academy and also through different online training sessions. During the lockdown period, there was significant focus on imparting online trainings to employees across verticals and 522 manhours of training was conducted between April and June 2020.

Functional competencies are defined for all the organisation's roles and integrated with various HR processes. Specific capability development programmes are also designed and implemented with the help of this competency framework. This framework helps the Company identify any gaps proactively and plan development interventions.

The Company continues to train employees to implement 'new ways of working', which boosts organisational sales and enables channel partners to implement processes smoothly. The development of internal trainers has also been a key focus area. The 'new ways of working' modules have been successfully driven by such internal trainers. A total of 2,112 mandays were recorded during the year for training. Specific post-programme initiatives are planned to sustain the capability-building initiatives. Gulf Oil plans to enhance its productivity across the organisation through its new performance management system 'ASPIRE' to drive business growth.

Employee stock option scheme (GOLIL ESOP 2015)

The Company believes that equity-based compensation schemes are an effective tool to motivate and reward eligible employees. These schemes create employee ownership, attract new talent and retain the key resources in the organisation. They offer significant benefits to the employees. In view of the above, the Company has instituted the 'GOLIL Employee Stock Option Scheme, 2015' for its eligible employees.
The Company has granted options as per the following vesting schedule or as per modifications approved by the Nomination and Remuneration Committee from time to time:

Completion of tenure	Total grant of eligible employees
1 year	10%
2 years	15%
3 years	15%
4 years	60%

The scheme now covers several critical positions below senior management as well. The options granted under the scheme shall be based on satisfaction of vesting conditions, which can thereafter be exercised, resulting in the allotment or issue of equity shares of the Company.

Employee relations

Employee relations at the Silvassa and Chennai plants remained cordial during the year and most of the issues were resolved through mutual dialogue. The Company's total workforce stood at 600+ during FY 2019-20.

Internal control systems and their adequacy

The Company's internal control mechanism has been designed to provide accurate recording of transactions with internal checks and prompt reporting, adherence to applicable accounting standards, compliance with applicable statutes, policies and procedures, guidelines and authorisations. Following the implementation of the Companies Act, 2013, the Company has complied with the specific requirements in terms of Section 134 (5)(e) of the Act, calling for the establishment and implementation of an Internal Financial Control (IFC) framework that supports compliance with requirements of the Act in relation to the Directors' Responsibility Statement.
The IFC framework document supports the evaluation of the operative effectiveness of the controls consistently.

The Company, through its own internal audit department, conducts periodic audits at all locations and functions based on the plan approved by the Audit Committee and brings out any deviation in internal control procedures. The observations arising out of the audits are periodically reviewed and compliances are ensured.

The summary of the internal audit observations and status of implementation are submitted to the Audit Committee every quarter for its review and concerns, if any, are reported to the Board. The statutory auditors of the Company also review the efficacy and adequacy of the internal audit function as a part of their audit procedures and has full access to all the reports and findings of the internal audit.

Financial performance

Gulf Oil's revenues declined 3.65% y-o-y to ₹164,350 lakhs. However, sharper focus on driving cost efficiencies along with reduction in corporate tax rates enabled the Company to post its highest-ever PAT of ₹20,252 lakhs, an increase of 13.92% over FY 2018-19. Its EBITDA too touched an all-time high of ₹28,653 lakhs, witnessing an uptick of 1.23% over FY 2018-19. Company's material margins improved significantly during the year, touching the highest level of recent few years at 50% vs 45% in FY 2018-19 due to stable input costs and timely pricing actions. Despite a tough macro-economic scenario and industry volatility, Gulf Oil continued to create value for its investors and paid a total dividend of ₹14 per equity share (dividend payout ratio of 35% or 700% of face value of ₹2 per equity share) during the year. In addition to the final dividend of ₹7.0 per equity share (i.e. 350% on face value of ₹2 each), in April 2020, the Board had declared and paid interim dividend for the financial year 2019-20 of ₹7.00 per equity share (i.e. 350% of face value of ₹2 per equity share).

₹ Lakhs

	Year ended March 31, 2020	Year ended March 31, 2019	Growth %
Revenue	164,350	170,580	(3.7)
EBITDA	28,653	28,305	1.2
PBT	26,454	27,507	(3.8)
PAT	20,252	17,778	13.9
EPS (Basic) FV-₹2 per equity share	40.51	35.73	

Revenues

Revenue stood at ₹164,350 lakhs in FY 2019-20 from ₹170,580 lakhs in FY 2018-19. The lubricants industry faced many challenges during the year due to the major automotive industry slowdown for new vehicles production or sales coupled with overall weaknesses in economy across sectors, which impacted the lubricants market demand and usage levels. Liquidity pressures in the trade also added to these lower demand levels as seen in FY 2019-20. The OEM factory fill volumes for the Company were directly impacted by this de-growth in vehicle production, particularly Commercial Vehicles, which fell as much as 50-60% during the year FY 2019-20 vs FY 2018-19.

1. Breakup of various cost items as percentage of sales

Particulars	Year ended March 31, 2020		Year ended March 31, 2019	
	₹ lakhs	%	₹ lakhs	%
Sales	**164,350**	**100**	**170,580**	**100**
Cost of goods sold	82,947	50.5	93,827	55.0
Employee benefit expenses	11,400	6.9	10,174	6.0
Manufacturing & other expenses	41,350	25.2	38,274	22.4
Total expenses	**135,697**	**82.6**	**142,275**	**83.4**
EBITDA	**28,653**	**17.4**	**28,305**	**16.6**
Other income	3,555	2.2	2,954	1.7
Finance costs	2,483	1.5	1,516	0.9
Depreciation/Amortization	3,271	2.0	2,236	1.3
Profit before tax (PBT)	**26,454**	**16.1**	**27,507**	**16.1**
Tax expenses	6,202	3.8	9,729	5.7
Profit after tax (PAT)	**20,252**	**12.3**	**17,778**	**10.4**

a. Cost of goods sold

Cost of goods sold decreased by 11.6% to ₹82,947 lakhs in FY 2019-20 from ₹93,827 lakhs in FY 2018-19 mainly due to fall in base oil prices, which is a key raw material for lubricants manufacturing. Cost of goods sold as a percentage to net revenue also decreased from 55.0% in FY 2018-19 to 50.5% in FY 2019-20.

b. **Manufacturing and other expenses**
Manufacturing and other expenses increased by 8.0% to ₹41,350 lakhs in FY 2019-20 from ₹38,274 lakhs in FY 2018-19. Increase is mainly on account of increase in advertising and sales promotion by ₹273 lakhs, increase in selling and marketing expenses by ₹3,928 lakhs, increase in royalty by ₹197 lakhs, decrease in freight and forwarding expenses by ₹394 lakhs and decrease in rent by ₹ 573 lakhs.

c. **Employee benefit expenses**
Increased by 12.1% to ₹11,400 lakhs in FY 2019-20 from ₹10,174 lakhs in FY 2018-19 mainly on account of increase in head count, additional ESOP Amortization and usual increments resulting in increase in payroll cost by ₹1,226 lakhs.

d. **Finance costs**
Finance costs increased to ₹2,483 lakhs in FY 2019-20 from ₹1,516 lakhs in FY 2018-19, which mainly includes unrealised forex loss of ₹750 lakhs due to rupee depreciation at the year end and also accounting effect of ₹201 lakhs on adoption of new Accounting Standard Ind-AS-116 on Leases.

e. **Depreciation/Amortization charge**
Depreciation/amortization charges increased to ₹ 3,271 lakhs in FY 2019-20 from ₹2,236 lakhs in FY 2018-19 mainly due to accounting effect of ₹894 lakhs on adoption of new Accounting Standard Ind-AS-116 on Leases.

Balance sheet

₹ in lakhs

Particulars	As at March 31, 2020	As at March 31, 2019	Change
Assets			
Fixed assets	**28,113**	**27,121**	**992**
Other non-current assets	3,766	3,732	34
Cash and bank balances	55,095	29,260	25,835
Current assets	57,681	54,134	3,547
Total	**144,655**	**114,247**	**30,408**
Equities and liabilities			
Shareholders' funds/Net worth	**76,131**	**58,674**	**17,457**
Non-current liabilities	3,039	2,434	605
Short-term borrowings	35,372	28,311	7,061
Current liabilities	30,113	24,828	5,285
Total	**144,655**	**114,247**	**30,408**

2. Capital employed
During FY 2019-20, capital employed increased from ₹114,247 lakhs to ₹144,655 lakhs mainly due to increase in cash and bank balances by ₹ 25,835 lakhs and increase in current assets by ₹ 3,547 lakhs due to overall efficient working capital management.

3. Fixed assets

Net block of fixed assets (including CWIP) increased by ₹992 lakhs to ₹28,113 lakhs in FY 2019-20 from ₹ 27,121 lakhs in FY 2018-19 mainly due to accounting effect as right of use assets of ₹1,929 lakhs net off corresponding depreciation on those right of use assets of ₹894 lakhs on adoption of new Accounting Standard Ind-AS-116 on Leases.

4. Other non-current assets

Other non-current assets at the end of FY 2019-20 increased by ₹34 lakhs to ₹3,766 lakhs from ₹3,732 lakhs at the end of FY 2018-19.

5. Cash and bank balances

Cash and bank balances increased by ₹25,835 lakhs and stands at ₹55,095 lakhs at the end of FY 2019-20 as compared to ₹29,260 lakhs at the end of FY 2018-19, thus demonstrating very healthy cash position and liquidity strength.

6. Current assets

Current assets at the end of FY 2019-20 increased by ₹3,547 lakhs to ₹57,681 lakhs from ₹54,134 lakhs at the end of FY 2018-19.

The overall inventory decreased by ₹1,052 lakhs to ₹ 32,827 lakhs in FY 2019-20 from ₹33,879 lakhs in FY 2018-19 due to efficient inventory management.

Trade receivables increased by ₹3,634 lakhs from ₹15,066 lakhs in FY 2018-19 to ₹18,700 lakhs in FY 2019-20.

7. Net worth

Net Worth at the end of FY 2019-20 increased by ₹ 17,457 lakhs to ₹76,131 lakhs from ₹58,674 lakhs as at FY 2018-19.

Increase in share capital by ₹6 lakhs in FY 2019-20 at ₹1,002 lakhs from ₹996 lakhs as at FY 2018-19 mainly due to issue of 308,438 shares under equity stock options.

Other equity of the Company increased by ₹ 17,451 lakhs in FY 2019-20 at ₹75,129 lakhs from ₹57,678 lakhs as at FY 2018-19 mainly on account profit after tax of ₹20,252 lakhs for FY 2019-20 and net off payment of final dividend for FY 2018-19 of ₹3,506 lakhs and dividend distribution tax of ₹721 lakhs.

8. Non-current liabilities

Non-current liabilities at the end of FY 2019-20 increased by ₹605 lakhs to ₹3,039 lakhs from ₹2,434 lakhs as at FY 2018-19.

9. Current liabilities (including short term borrowings)

Trade payables increased by ₹6,257 lakhs to ₹25,851 lakhs in FY 2019-20 from ₹19,594 lakhs in FY 2018-19.

Short term borrowings have also increased by ₹7,061 lakhs at the end of FY20 at ₹35,372 lakhs over previous year of ₹28,311 lakhs

The increase in short term borrowing includes unsecured working capital demand loans of ₹17,000 lakhs taken by the Company from its bankers in order to augment additional liquidity in the event of prolonged Pandemic induced impact on its working capital, which will be repaid as the situation normalises.

However, the Company has net cash (net of short-term debts) of ₹19,722 lakhs as at March 31, 2020 as against net cash balance of ₹949 lakhs as of

March 31, 2019, thus the Company is net debt free as at March 31, 2020.

Increase in lease liabilities of ₹2,219 lakhs due to accounting effect on adoption of new Accounting Standard Ind-AS-116 on Leases.

Other financial liabilities decreased mainly on account of payment of Capex creditors of ₹443 lakhs, decrease in current tax liabilities of ₹1,062 lakhs, increase in other current liabilities mainly due to decrease in statutory dues payable of ₹792 lakhs.

10. Liquidity

The Company broadly defines liquidity as its ability to generate sufficient funds from both internal and external sources to meet its obligations and commitments. Gulf Oil's primary liquidity requirements have been to finance its working capital requirements for its operations and for capital expenditures and investments. It has financed its capital requirements primarily through funds generated from regular operations. However, in order to keep sufficient liquidity in an uncertain environment, the company quickly garnered unsecured working capital demand loans from its bankers during 2nd half of March 20 as a precautionary measure to mitigate any unforeseen prolonged impact on its working capital and to meet other regular fixed costs.

11. Cash flows

The table below summarises Gulf Oil's cash flow for the periods indicated (Please refer cash flow statement for more details)

₹ in lakhs

	Year ended March 31, 2020	Year ended March 31, 2019
Net cash generated from operating activities	23,684	1,704
Net cash generated/(used) in investing activities	1,741	(2,186)
Net cash generated/(used) in financing activities	487	(2,949)
Net change in cash and cash equivalents	25,912	(3,431)

12. Changes in Key Financial Ratios

Sr. No.	Key Ratios	As on 31 March 2020	As on 31 March 2019	Remarks /Responses
1	Debtors Turnover (Times)	9.73	11.96	No Significant change
2	Inventory Turnover (Times)	4.93	5.93	No Significant change
3	Interest Coverage Ratio (Times)	10.22	17.20	Change in ratio due to Higher finance cost (mainly on account of higher unrealised forex loss due to sharp depreciation of INR vs USD towards the year end & also Ind-AS-116 adjustments)
4	Current Ratio (Times)	1.72	1.57	No Significant change
5	Debt Equity Ratio (Times)	0.46	0.48	No Significant change
6	Operating Profit Margin (%)	15.44	15.28	No Significant change
7	Net Profit Margin (%)	12.32	10.42	Positive change due to higher profitability lead by higher gross margins & also aided favourably by corporate tax rate cuts
8	Return of Equity (ROE-%)	26.60	30.30	No Significant change

In this Annual Report, we have disclosed forward-looking information to enable investors to fully appreciate our prospects and take informed investment decisions. This report and any other statement – written and oral – that we periodically make, contain forward-looking statements that set our anticipated results based on management plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'expect', 'project', 'intend', 'plan', ' believe', and words of similar substance in connection with any discussion of future performance. We cannot, of course, guarantee that these forward – statements will be realised, although we believe that we have been prudent in our assumptions. Achievement of results is subject to risks, uncertainties, and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underline assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind. We undertake no obligation to publicly update any forward – looking statements, whether as a result of new information, future events or otherwise.