Panama Petrochem Limited

July 05 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	59.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short Term Bank Facilities	590.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**649.00 (Rs. Six Hundred Forty-Nine Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Panama Petrochem Limited (PPL) factors in the significant improvement in operating performance in FY21. PPL's total operating income grew by 44% in FY21 and operating profitability margins improved to 13.44% in FY21 from 5.61% in FY20. The improvement in performance is driven by supply imbalances in the industry owing to import restrictions imposed due to CoVID -19 thus, diverting demand to domestic players, further several cost reduction measures adopted by the company to rationalize cost and lower raw material prices aided margins. CARE believes that despite the moderation in operating margins going forward with normalcy of economic activities however, the margins are expected to remain above the historical levels supported by sustenance of the cost reduction measures adopted by the company. The ratings further, derive strength from the improvement in the liquidity profile of PPL with substantial improvement in gross cash accruals and reduced working capital utilization driven by controlled working capital management. This has also resulted in building up of a liquidity back-up in the form of unencumbered cash and bank balance of Rs. 74.49 crore as on March 31, 2021. Healthy profitability and low cost of overall debt with lower debt utilization resulted in improved coverage indicators in FY21.

The ratings continue factor in the extensive experience of the promoters in the petrochemical industry with diverse product offerings, long-standing relationship with reputed clientele and track record of consistently catering to them over the years. The ratings continue to be partially offset by PPL's profit margins susceptible to volatility in the key raw material prices which are crude derivatives, foreign exchange fluctuations and high competition from established players.

Rating sensitivities:

Positive Factors:

- Operating income increasing above Rs.1,800 core on sustained basis
- PBILDT margin improving above 16% on a sustained basis

Negative Factors:

- Operating profitability declining below 8% on a sustained basis
- Total debt/ gross cash accruals increasing above 2.36x on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters with diverse product offerings

The promoters have been in the petrochemicals business for over three decades. PPL has gradually expanded its presence across industry verticals growing from a Rs. 500 crore company to a Rs. 1400 crore company over the past 10 years. Mr Amirali Rayani, the Chairman of PPL and his son Mr. Amin Rayani, the Managing Director & CEO are in-charge of the day-to-day operations. They are assisted by a team of qualified and experienced professionals for various functions such as operations, marketing, finance, etc. PPL manufactures over 80 product variants of base oil, which is used across broad industry segments such as printing ink, resin, cosmetics, rubber products, pharmaceuticals, engineering, textiles, machinery manufacturing, chemical and petrochemical industries etc. Cosmetics industry accounts for the highest share of revenue (23% of revenue in FY21) followed by Inks/coatings (21% of revenue in FY21), rubber oils (19% of the revenue in FY21) and textile (19% of revenue in FY21).

Repeat orders from reputed and diversified clientele
PPL caters to the demand of reputed and a diversified clientele with includes industry majors such as Hubergroup (for Inks), Gulf Oil & Indian Oil Corporation Limited (for lubricants), Dabur India Ltd. (for cosmetics) etc. It has been consistently receiving orders from its clients over the past 10 – 15 years and has developed grades of base oils to cater to their specific requirements. Long approval process in getting a particular grade approved by the clients acts as a major entry barrier for new players and increases the dependence of the clients on PPL. The revenue concentration risk continues to remain low with top clients contributing 29% in FY21, reducing further from 37% in previous year. Exports contributes around 30%-40% of the revenues. Apart from having a manufacturing set up in India, PPL has manufacturing facilities in UAE under its 100% subsidiary Panol Industries, RMC FZE which caters to western Asia.

Robust performance in FY21, margins expected to moderate to some extent going forward
PPL reported 44% growth in its TOI in FY21 driven by improved sales volumes which increased by 50% in FY21 on a YoY basis. The segments which witnessed highest increase in volumes are rubber, cosmetics and inks. Demand for rubber oil increased on the back of higher demand from tyre industries which saw higher replacement demand. Supply of white oils to pharmaceutical and personal care companies was also high during FY21 given import restrictions due to the pandemic. PBILDT margins also improved in FY21 to 13.44% from 5.61% in FY20 as significant improvement was witnessed in the last two quarters of the financial year. This improvement was on account of several factors such as lower raw material costs, higher absorption of fixed costs due to 100% capacity utilization levels, increase in share of value-added products in the sales portfolio and lastly certain cost reduction measures adopted by the company during the year. CARE believes that, PBILDT margins would moderate to some extent owing to rising crude prices and relaxations of import restrictions going forward. However the margins are expected to be higher than historical levels owing to the cost management practices adopted by the company and also gradual increase in the share of higher margin products.

Comfortable gearing and coverage indicators
Overall gearing of the company has remained comfortable at 0.55x as on March 31, 2021. This has been achieved by prudent working capital management. Reduced working capital borrowing has been achieved on the back of improvement in collection efficiency as well as better inventory management which has resulted in reduced reliance on external debt for working capital needs. The management has taken cautious approach during last two years (FY20 and FY21) to reduce the sales volume with clients that required extending higher credit period and increased business with clients with a better credit profile which has improved working capital management.

Key Rating Weaknesses

Susceptibility of its operating profit to volatility associated with key raw materials (which are derivatives of Crude Oil) and forex risk
Base oil, the key raw material used in the manufacturing of PPL's products is a derivative of crude oil. The price of crude oil is affected by factors like global demand, global production, geo-political factors and government regulations hence tend to remain highly volatile. Change in the price of base oil take place with a lag of two months and not necessarily in the same proportion. While PPL is able to pass on the price changes to its customers, it happens with a lag of one month and high volatility in prices may impact the profit margins adversely. Further PPL is exposed to currency risk mainly on account of its import payables and export receivables in foreign currency, mainly US Dollars. PPL enjoys natural hedge upto 35-40% given its exports and for the remaining portion, it follows a hedging policy and enters into forward contracts to cover around 30-40% of its net exposure and keeps the remaining open.

Exposed to high competition in the industry
PPL operates in a highly competitive industry marked by low entry barriers and fairly large competing products. As such, companies in the industry are seldom able to charge a premium for the products sold by them and focus on increasing their volumes. This also restricts their ability to pass on raw material price increases to their customers.

Liquidity: Strong
Absence of long term debt coupled with average working capital utilization (fund based and non- fund based) at 44% for the 12 months ended April 2021 has resulted in comfortable liquidity position of the company. Further, PPL had unencumbered cash balance of Rs. 74.49 crore as on March 31, 2021. The management made a conscious effort during the year to reduce business from clients where receivable cycle was stretched as well as at reducing inventory holding period which had earlier resulted in blocking of capital in meeting working capital requirements.

Analytical approach: Consolidated
PPL's 100% subsidiary Panol Industries, RMC FZE (Panol; in similar line of business) is considered for arriving at consolidated financials as there are strong operational and financial linkages between the companies.

Applicable Criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Consolidation]
[Liquidity analysis of Non- Financial sector companies]

About the Company
Incorporated in the year 1982, Panama Petrochem Limited (PPL) is engaged in the business of manufacturing of petroleum derivative products which find application in industries such as cosmetics & pharmaceuticals, Inks/Coatings, textiles, automobile, power, engineering, and rubber. The product portfolio includes liquid paraffin oils, petroleum jelly, ink oils, antistatic coning oil, rubber process oils, transformer oils, cable filling compounds and paraffin wax (some portion of wax is traded). PPL has four manufacturing facilities located at Ankleshwar (Gujrat), Daman (Union Territory), Taloja (Raigadh, Maharashtra) and Dahej (Bharuch, Gujarat) with an aggregate installed capacity of 2,00,000 MTPA in FY21. Besides, PPL has overseas operations in UAE managed by its wholly owned subsidiary Panol Industries, RMC FZE (Panol). Panol has a manufacturing facility at Ras Al Khaimah (UAE) to manufacture Transformer Oils, Industrial Lubricants, Rubber Process Oils, etc. with an installed capacity of 30,000 MT per year.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore) (consolidated)	FY20 (A)	FY21 (A)
Total operating income	1,005.91	1,452.42
PBILDT	56.40	195.21
PAT	28.78	135.35
Overall gearing (times)	0.54	0.55
Interest coverage (times)	3.23	21.82

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	590.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	-	59.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-BG/LC	ST	590.00	CARE A1	-	1)CARE A2+ (06-Aug-20)	1)CARE A2+ (01-Jul-19) 2)CARE A1 (02-May-19)	1)CARE A1 (16-Oct-18)
2.	Fund-based - LT-Cash Credit	LT	59.00	CARE A; Stable	-	1)CARE A-; Stable (06-Aug-20)	1)CARE A-; Stable (01-Jul-19) 2)CARE A; Negative (02-May-19)	1)CARE A; Stable (16-Oct-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for PPL

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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