Manali Petrochemicals Limited (Revised)

September 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
(i) Long Term Bank Facilities	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
(ii) Short Term Bank Facilities	50.00 (Enhanced from 40.00)	CARE A1+ (A One Plus)	Reaffirmed
(iii) Short Term Bank Facilities^	-	-	Withdrawn
Total Bank Facilities	**100.00 (₹ One Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

^CARE has withdrawn the short-term ratings assigned to the short-term bank facilities in S.No (iii) (short-term working capital loan of Rs.10 crore) as they cease to exist as per the latest bank sanction letter. The said limits have been re-grouped and now form a part of the short-term facilities under S.No (ii).

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Manali Petrochemicals Limited (MPL) factors in the strong performance of the company over the last two years ended March 31, 2022, which has strengthened its financial position marked by a comfortable capital structure and liquidity. This performance was largely on the back of supply-side issues, impacting the availability of imports leading to increase in prices of its products. While this situation is gradually returning to the previous levels and the flow of imports having increased the company' s profitability is expected to normalise.

The ratings continue to draw comfort from the long-standing operational track record of the company with a product portfolio that caters to a diverse end-use segment.

The ratings, however, continue to be constrained by relatively moderate scale of operations in a cyclical industry dominated by imports from global integrated players who enjoy benefits of scale and a diverse product profile. Furthermore, limited control on pricing of finished goods and volatility of raw material prices restricts the profit margins of the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the scale of operations of about Rs.1,500 crore with diversification in product profile and higher share of value-added products
- Maintaining profitability margins over 15% on a consistent basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Moderation in profitability marked by PBILDT margins dropping below 8% on a sustained basis
- Any substantial debt-funded capex or acquisition leading to deterioration in capital structure marked by overall gearing in the upwards of 0.50x

Detailed description of the key rating drivers

Key rating strengths

Major domestic producer of propylene glycol (PG) and polyol: MPL has been in operations for more than three decades in the business of manufacture of petrochemical products, namely PG, polyols, and others. The products are import substitutes and MPL is the only domestic manufacturer in case of PG. The company is also in the process of expanding its PG plant, which is already operating at 95%-99% capacity for the past 3 years. The same is expected to further increase the market share of the company in the domestic market. Since most of the domestic customers have a policy of not wholly depending on the imports for its RM supply, being the sole domestic producer is favorable for MPL.

Diversification in the end-use industry and customers: The company derives around 85% of the revenue from PG and polyols. While the product concentration is high, this is mitigated to an extent as the end-segment that the company serves with these two products is diverse. MPL caters to players in pharma, food flavouring, bedding/mattress and auto, limiting risk of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

concentration in one industry. In the polyols segment, almost 20% of the demand is from the automotive industry and other major demand is from foam and bedding. It is also used for insulation panels and waterproofing in the construction segment. PG is used in drug formulations in the pharma industry, as food preservatives and solvents in the food industry, and as carriers in flavour and fragrances, etc.

Improvement in operational performance in FY22 driven by supply chain disruptions: The company has consistently utilized more than 95% of its PO and PG capacity. In case of polyol, the utilization has improved over the years and maintained at 50%-60% levels which has improved to around 75% in FY22 due to some debottlenecking activities. While the revenues and PBILDT remain volatile as product prices are linked to crude and there is a considerable pricing pressure from imports, MPL has consistently delivered stable operational performance over the years. FY21 and FY22 marked exceptional years for the company's operational performance with a sharp increase in the top line and margins with margins touching 36% in FY22 as against 9% in FY20. Due to supply related issues, realisations in PG has witnessed a growth of 103% over FY21 while volume growth was at 10%. Realisations of slab-stock polyols and Systems polyol witnessed an increase of 4% and 24% respectively.
From the end of Q4FY22, supply chain challenges have subsided and imports have gradually increased thereby leading to easing of prices. The impact of this is reflected in Q1FY23, wherein MPL has registered a TOI of Rs. 300 crore with a drop in PBILDT to 17%.

Investment in subsidiaries: MPL has been constantly looking out for acquisition targets which could help the company in product differentiation through unique formulations and IP rights. For this purpose, the company had set up a wholly owned subsidiary (WOS), AMCHEM Specialty Chemicals Private Limited, Singapore (Amchem), in September 2015 to identify potential investment opportunities across the globe and hold all the foreign assets of MPL. The step-down subsidiary of MPL, Amchem Speciality Chemicals UK Limited has informed that it is proposed to implement a restructuring by which the net assets of the subsidiary would be transferred to Amchem Speciality Chemicals Private Limited, Singapore during the FY 2023. Notedome, is into manufacturing Neuthane Polyurethane Cast Elastomers catering to customers primarily in automotive and agriculture sectors. Notedome Limited, UK reported a PAT of about Rs.8 crore on an income of about Rs.92 crore in FY21. MPL has also started using the know-how from Notedome and introducing these products in the domestic market. Consolidated PAT for MPL stood at Rs.381 crore on a revenue of Rs.1,689 crore for the year ended March 31, 2022.

Status on capacity expansion plans: The company is expanding PG capacity at an estimated cost of about Rs.150 crore to be done in two phases, which will strengthen the presence of MPL in the domestic market as a substantial part of the PG demand is met through imports. The first phase of expansion is to involve an outflow of Rs. 65 crore. Over the past 4 years, the capacity utilisation of PG plant was more than 95% and in FY21, it was almost 100% and with the capacity enhancement, the company will then be able to meet a major portion of domestic demand.
The company also has plans of putting up a polyester polyol plant with a total estimated cost of Rs. 40 crore also to be done in 2 phases. The capital expenditure along with the other routine capital expenditure are likely to be funded only out of internal generation. The company had liquid funds of Rs.604 crore as on March 31, 2022.

Key Rating Weaknesses

High competition from global integrated players and cheaper imports: The major players internationally include Dow Chemicals Group and German major BASF who have large capacities which enable them to offer higher quantity of polyols to Indian market at lower prices. The products manufactured by MPL are import substitutes. The company faces competition from imports primarily from above major international players wielding considerable clout in terms of pricing. Prices of finished products manufactured by MPL generally move in tandem with raw material prices (with some time lag) which are derivatives of crude oil and MPL prices its finished products based on the respective landed costs of imports which limits control over the end-product pricing. In polyols, this has moderated to an extent due to the levy of Anti-Dumping Duty (ADD) on imports from Singapore, Saudi and UAE from time to time.

Margins exposed to raw material price volatility, however, mitigated by end-product price revisions: The price of the raw materials like propylene and PO has remained volatile in the past, depending on crude price. However, prices of finished products manufactured by MPL also generally move in tandem with raw material prices, although with some time lag. As the industry is characterised by price volatility, the EBITDA margins of the company also remain volatile.
The company also has a competitive edge on the freight cost front as the plants of suppliers of major raw materials (propylene, PO and chlorine) are contiguous to MPL's plant. The primary supplier of propylene (major raw material) for MPL is Chennai Petroleum Corporation Limited (CPCL).

Industry risk and prospects

The petrochemical industry is a cyclical industry characterized by volatility in both feedstock prices and demand. The demand for the petrochemicals generated from the downstream industries is dependent on the state and growth of the economy and in turn could influence the derived demand for MPL's products. While there is a huge gap in the domestic demand and production, the competition from large integrated global players acts as an entry barrier to any new entrants as the incumbents can aggressively price due to their integrated facilities which a domestic standalone player cannot match. With the domestic demand being higher than the domestic capacity, the offtake risk for domestic producers is low driven by end-users need to maintain an alternate to imports. However, their performance remains susceptible to changes in Government policies and regulation regarding international trade and trade protection metrics. Currently, to promote the domestic players, ADD has been imposed by the government on the imported polyols. FY21 and FY22 marked a unique years - the pandemic inducing manufacturing slump which subsequently resumed with pent-up demand from the lockdown on one hand and major hurricanes and polar storm in US and other disruptions leading to shortages, supply chain issues and temporary shutdown of global players' operations on the other; the combination of which has driven the prices of PO and its derivatives to a high. The domestic players could cash in on such uptrend. However, the trend has reversed with the resumption of these large integrated global players thereby driving the prices of PO and its derivatives down to previous levels. These margins of the standalone players continue to be exposed to the volatility in prices in the market and volatility in crude prices. Going forward, the PG and polyols markets are expected to have a steady growth driven by growth in pharma applications and auto segment, respectively. The ability of the company to sustain its current market share, scale up the operations as anticipated while maintaining the margins would remain key to the prospects of the company.

Liquidity - Strong

MPL receives credit period of 45-90 days for its procurement and provides credit period 40-50 days for its customers. Average working capital utilization of MPL for the twelve months period ended July 2022 remained low at 13% as majority of the working capital requirement is met through internal sources. Cash and bank balances stood at Rs.604 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company

MPL, a part of the AM International group, is a Chennai-based manufacturer of petrochemical products, namely, propylene oxide (PO), propylene glycol (PG), polyols, system polyols and other allied products. MPL has two manufacturing facilities situated at Manali in Chennai. Plant I was set up in 1990, whereas Plant II was initially started as UB Petrochemical Ltd in 1990 by the UB group, which was subsequently acquired by Southern Petrochemicals Industries Corporation (SPIC) in 1995 as SPIC Organics Ltd and was merged with MPL in the year 2000. MPL's products are import substitutes and cater to a wide variety of end-user industries. MPL is the only domestic player in the segments in which it operates and faces competition only from imports

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Abridged)	Q1FY23 (Prov.)
Total Operating income	922.23	1,443.67	300.90
PBILDT	290.21	522.31	51.21
PAT (after deferred tax)	192.61	376.70	37.14
Overall gearing ratio(times)	0.08	0.08	NA
Interest coverage(times)	65.66	57.65	29.10

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	50.00	CARE A+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A1+
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	10.00	CARE A1+
Non-fund-based - ST-Bank Guarantee		-	-	-	15.00	CARE A1+
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT*	50.00	CARE A+; Stable	-	1)CARE A+; Stable (20-Aug-21)	1)CARE A; Stable (30-Mar-21)	1)CARE A-; Stable (18-Mar-20) 2)CARE A-; Stable (05-Apr-19)
2	Non-fund-based - ST-Letter of credit	ST**	25.00	CARE A1+	-	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	10.00	CARE A1+	-	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)
4	Non-fund-based - ST-Bank Guarantee	ST	15.00	CARE A1+	-	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)
5	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)

*Long term; **Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Fund-based - ST-Working Capital Limits	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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