Manali Petrochemicals Limited (Revised)

August 20, 2021

Ratings

Instrument / Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	50.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Total Bank Facilities	**100.00 (Rs. One hundred 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 Manali Petrochemicals Limited (MPL) factors in the strong performance of the company in the last few quarters ending June 30, 2021.

MPL's revenue and profit witnessed a significant increase aided by supply-side issues, impacting the availability of imports. Improved realizations, increased domestic sourcing of key raw material, reducing dependence on costlier imports and other cost-saving initiatives have led to strong accruals. While margins are expected to normalize in the ensuing quarters, the improved profits have strengthened the financial position of the company by way of liquidity and providing sufficient headroom for capacity expansion funded entirely out of internal generation.

The ratings, however, continue to be constrained by the 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. 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, healthy cash accruals and comfortable capital structure.

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, propylene oxide (PO), 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 favourable for MPL.

Diverse end-use segment: 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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

diverse. The end-user industry they serve varies from pharma and food flavouring to auto limiting risk of 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 and construction industry. PG is used in the pharma industry, the food industry, and as carriers in flavour and fragrances, etc.

Consistent improvement in operational performance coupled with increased scale and profits in FY21: 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. While the revenues and PBILDT remain volatile as product prices are linked to crude and there is a considerable import, MPL has consistently delivered stable operational performance and has been able to maintain their margins. The performance has further strengthened in FY21 (refers to the period April 1 to March 31) with a sharp increase in the top line and margins. As a result of the supply shortage in PO, subsequent shortage of PG and polyols and stable domestic market conditions, there has been increase in the prices which led to better realisations for MPL. PG realisation witnessed a 30% increase and slab-stock polyols witnessed a 63% increase in FY21. In Q1FY22 also, the company has made a revenue of Rs.279 crore as compared with Rs.68.43 crore in Q1FY21 and has recorded a PBILDT margin of 38%.

Efforts on improving process efficiency to aid margins: Over the last two years, the company has been able to reduce its dependence on costlier imported PO aided by capacity expansion at one of group companies. Furthermore, the company continually invests in improvement of process efficiency. Apart from raw material cost, the next major cost for MPL would be power cost. Over the years, the company has invested in bringing down the power cost or consumption. In FY21, the company was able to bring down the power and fuel cost by around Rs.7 crore due to process change initiated to facilitate heat recovery in the manufacturing process. The company also has third-party power purchase arrangements where the cost is lower and only around 20% of the power requirement is met through Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO).

Capacity expansion of PG plant: PG contributes up to 30% of the TOI of MPL. The company is expanding PG capacity at an estimated cost of about Rs.150 crore to be done in two phases. This will strengthen the presence of MPL in the domestic market as a substantial part of the PG demand is met through imports. 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 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.253 crore as on March 31, 2021.

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 investments opportunities across the globe and hold all the foreign assets of MPL. In September 2016, MPL acquired Notedome Limited (Notedome), UK, engaged in similar line of business, through a UK subsidiary of Amchem Singapore, AMCHEM Speciality Chemicals UK Limited, thereby making both of the companies as step-down subsidiaries. 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.201 crore on a revenue of Rs.1,019 crore.

Key Rating Weaknesses

High competition from global integrated players and cheaper imports: The products manufactured by MPL are import substitutes; the Indian polyol and PG markets are still dominated by 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 top manufacturers control over 40% of the total polyol and PG market giving them enormous control over product pricing and other strategies. 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 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, as a mitigating factor, prices of finished products manufactured by MPL also generally move in tandem with raw material prices, but, with some time lag. However, in the freight cost front, the company also has a competitive edge 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). In case of shortages from CPCL, propylene is sourced from IOC/ GAIL (in Northern India) and Bharat Petroleum Corporation Limited (BPCL), Cochin. The company's dependence on imported PO is also lower as it procures from one of its group companies which is adjacent to the MPL's manufacturing plant.

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. The industry is characterised by heavy imports and almost 70%-80% of the domestic consumption is met through imports. 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. FY21 marked a unique year with 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, going forward, the trend is expected to return to normalcy with resumption of large integrated global players. The PG and polyols markets are expected to have a steady growth driven by growth in pharma applications and auto segment, respectively.

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-month period ended July 2021 remained low at 15% as majority of the working capital requirement is met through internal sources. The company had liquid funds of Rs.253 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Liquidity Analysis – Non-Financial Sector

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 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 (Rs. crore)	FY20 (A)	FY21 (Abridged)
Total operating income	675	922
PBILDT	62	290
PAT	66	38
Overall gearing (times)	0.10	0.08
Interest coverage (times)	10.96	65.66

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3* -Not applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE A+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1+
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A1+
Non-fund-based - ST-Bank Guarantees	-	-	-	15.00	CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	10.00	CARE A1+

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.	Fund-based - LT-Cash Credit	LT*	50.00	CARE A+; Stable	-	1)CARE A; Stable (30-Mar-21)	1)CARE A-; Stable (18-Mar-20) 2)CARE A-; Stable (05-Apr-19)	1)CARE A-; Stable (25-Jan-19) 2)CARE A- (CWD) (04-Jan-19) 3)CARE A-; Stable (06-Apr-18)
2.	Non-fund-based - ST-Letter of credit	ST**	15.00	CARE A1+	-	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (CWD) (04-Jan-19) 3)CARE A1 (06-Apr-18)

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
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST**	10.00	CARE A1+	-	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (CWD) (04-Jan-19) 3)CARE A1 (06-Apr-18)
4.	Non-fund-based - ST-Bank Guarantees	ST**	15.00	CARE A1+	-	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (CWD) (04-Jan-19) 3)CARE A1 (06-Apr-18)
5.	Fund-based - ST-Working Capital Limits	ST**	10.00	CARE A1+	-	1)CARE A1 (30-Mar-21)	1)CARE A1 (18-Mar-20) 2)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (CWD) (04-Jan-19) 3)CARE A1 (06-Apr-18)

*Long-term; **Short-term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

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

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About CARE Ratings:

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