Manali Petrochemicals Limited (Revised)

November 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	50.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Manali Petrochemicals Limited (MPL) consider the strong financial position, marked by a comfortable capital structure and liquidity position. While the realisations are impacted due to the resurgence of cheaper imports, MPL has been able to leverage the position of the sole manufacturer of Propylene Glycol (PG) and Polyol in India for maintaining the market share in terms of sales volumes. The ratings also take note of the acquisition of Penn-White Limited and its subsidiaries (collectively 'PGL'), giving the company access to a larger value-added product portfolio and expanding the company's geographical presence in Europe.

The ratings also 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 the presence in a cyclical industry dominated by imports from global integrated players who enjoy the benefits of scale and a diverse product profile. Furthermore, the limited control on pricing of finished goods and the volatility of raw material prices restricts the profit margins of MPL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Increase in the scale of operations of about ₹1,500 crore with improvement in the share of value-added or specialty chemicals.
- Profitability margins over 15% on a consistent basis.

Negative factors

- Substantial decline in sales volumes, leading to the operating margins remaining below 8% on a consistent basis.
- Any substantial debt-funded capex or acquisition, leading to a deterioration in the capital structure, marked by an overall gearing upwards of 0.50x.
- Substantial lowering of the liquidity cushion available by way of available free cash and bank balances.

Analytical approach: Consolidated

The analytical approach has been revised from 'standalone' to 'consolidated' since the total value of investments in the subsidiary forms about 40% of the tangible net worth (TNW) post the acquisition of PGL through its wholly owned subsidiary, AMCHEM, and the subsidiaries now contribute to a major portion of the profit for the company. The list of subsidiaries is given in Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's ('CARE Ratings') belief that MPL will continue to maintain its established market position and its healthy financial risk profile, supported by the strong capital structure profile and liquidity, over the medium term.

Detailed description of the key rating drivers

Key strengths

Major domestic producer of propylene glycol (PG) and polyol

MPL, with over three decades of experience, specialises in the production of petrochemicals such as propylene oxide (PO), PG, polyols, and other related products. These products serve as substitutes for imports, and MPL holds a unique position as the sole domestic manufacturer of PG. As most domestic customers do not prefer to rely entirely on imports for the supply of raw materials, MPL's status as the exclusive domestic producer of PG proves advantageous.

Relationships with reputed customers across diverse industry verticals

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

MPL derives around 85% of its revenue from PG and polyols. The company strategically serves a diverse range of end-user industries, mitigating the risk of concentration in any single sector.
PG finds applications in pharmaceuticals, food industry, and as carriers in flavours and fragrances, while polyols find application in the automotive industry and a significant usage in foam and bedding, and construction applications like insulation panels and waterproofing. The company has long-standing relationships with reputed clients in each industry and the top 10 clients contribute to less than 47% of the total operating income (TOI), thus limiting the risk of concentration to a particular customer.

Diversification benefits due to subsidiaries
In 2016, MPL acquired Notedome Limited (Notedome), UK. Notedome is into the manufacturing neuthane polyurethane cast elastomers, catering to customers primarily in the automotive and agricultural sectors. Notedome, UK, reported a profit-after-tax (PAT) of about ₹3 crore on an income of about ₹100 crore in FY23.
In 2022, MPL, through its wholly owned subsidiary, AMCHEM, acquired a 100% stake in Penn Globe Limited (PGL) for a consideration of GBP 20.6 million (approximately ₹204 crore). PGL, with over three decades of experience, has a diverse portfolio of over 200 products. In FY23, for the period between December 01, 2023, to March 31, 2023, PGL and its subsidiaries made a revenue of about ₹47 crore with a PAT of ₹6 crore, which is included in the consolidated financials of MPL.
With a strategic focus on achieving an 80:20 mix between commodity and specialty offerings, the recent acquisition of PGL enhances product variety and contributes to improved margins. This move also positions MPL to expand geographically into the European markets, catering to the UK and beyond.

Status on capacity expansion plans
MPL has started expanding its PG capacity at an estimated cost of about ₹150 crore to be undertaken in two phases, which will strengthen the presence of MPL in the domestic market, as a substantial part of the demand for PG is met through imports. The company is currently implementing the first phase of increasing its capacity from 22,000 metric tonne per annum (MTPA) to 42,000 MTPA.
MPL also has plans to build a polyester polyol plant with a total estimated cost of ₹40 crore, also to be undertaken in two phases. All the capital expenditure (capex) plans along with the other routine capex is likely to be funded only out of internal generation. The company, at a consolidated level, had liquid funds of ₹415 crore as on September 30, 2023.

Key weaknesses
High competition from global integrated players and cheaper imports limiting end-product pricing
Internationally, Dow Chemicals and German major BASF have large capacities, enabling them to offer higher quantity of polyols to the Indian market at lower prices. The products manufactured by MPL are import substitutes; the Indian polyol and PG markets are still dominated by cheaper imports. MPL prices its finished products based on the respective landed costs of imports, which limits the control over end-product pricing. FY21 and FY22 were unique years in the petrochemicals industry due to the disruptions in global petrochemicals companies and the global supply chain, leading to better realisations. However, since H2FY23, especially after the opening-up of China, the imports have seen a resurgence. With a slowdown in China’s economy, the imports to India have been higher, leading to lowering of realisations for domestic players like MPL. The realisation of base polyols and PG has dropped by 31% and 34%, respectively, in FY23 vis-à-vis FY22 and further by 2% and 16%, respectively, in Q1FY24 vis-à-vis FY23.
It is to be noted that, while realisations continue to be impacted negatively, MPL has been able to maintain its sales volumes at similar levels.

Exposure of margins to volatility in raw material prices
The prices of raw materials like propylene and PO have remained volatile in the past, depending on the prices of crude. However, the 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 PBILDT margin of the company also remains volatile. The company mitigates this to a certain extent due to the lower freight costs, as the plants of suppliers of major raw materials are contiguous to MPL’s plant. The company’s dependence on imported PO is low since it has its own PO plant and it also procures from one of its group companies.

Industry risk and prospects
The petrochemicals industry is a cyclical industry, characterised by volatility in both, feedstock prices and demand. The demand for petrochemicals generated from downstream industries is dependent on the state and growth of the economy, and in turn, can influence the derived demand for MPL’s products. While there is a huge gap in domestic demand and production, the competition from large integrated global players acts as an entry barrier to any new entrants. With the domestic demand being higher than the domestic capacity, the offtake risk for domestic producers is low, driven by the end-user’s need to maintain an

alternative to imports. However, their performance remains susceptible to changes in government policies and regulations regarding international trade and trade protection metrics. Currently, to promote domestic players, anti-dumping duty (ADD) has been imposed by the government on the imports of polyols.

Going forward, the PG and polyols markets are expected to have steady growth, driven by growth in pharma applications and the auto segment, respectively. The ability of the company to sustain its current market share, scale up its operations as anticipated, while maintaining its margins remain key to the prospects of the company.

Liquidity: Strong

The liquidity position is strong with a cash and bank balance of ₹384.68 crore as on March 31, 2023, and ₹415 crore as on September 30, 2023, with no debt repayment obligations except lease payments. MPL receives a credit period of 45-90 days for its procurement and provides a credit period of 40-50 days to its customers. The average utilisation remained low at 9% for the 12 months ended August 31, 2023.

Environment, social, and governance (ESG) risks

Environmental: MPL is into the manufacturing of chemicals, leading to environmental issues, especially relating to waste disposal. The company has a full-fledged effluent treatment plant (ETP) in place to treat the trade effluent with biological oxidation technology. The treated effluent discharges further meet the prescribed norms of the Pollution Control Board (PCB) for marine disposal. The company has also undertaken efforts to make eco-friendly products. MPL had entered into a memorandum of understanding (MoU) with Econic Technologies to enable the substitution of fossil-based raw materials with captured waste CO_2 in the production of polyols.

Social: The company has undertaken activities towards providing preventive healthcare, promoting education including special education, and employment enhancing vocation skills, among others. As on March 31, 2023, MPL has 317 permanent employees, 534 persons employed as workers, with about 16% of the employees being women. There are almost 130 complaints filed by employees on working conditions and health & safety out during the year of which 16 still remains unresolved. There have been no complaints on human rights issue.

Governance: The company is a listed company complying with Clause 49 of the listing agreement. MPL has a total of 10 directors, of which six are independent directors. Of the rest, two directors are non-executive, non-independent, and two are executive directors. The company has also formed the required statutory committees, including Audit Committee, Nomination and Remuneration Committee, CSR Committee, etc. The Audit Committee is headed by G Chellakrishna, Independent Director, who is a member of ICAI.

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
Consolidation

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals and petrochemicals	Petrochemicals

MPL, part of the AM International group, is a Chennai-based manufacturer of petrochemical products, namely, PO, 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 Limited in 1990 by the UB group, which was subsequently acquired by Southern Petrochemicals Industries Corporation (SPIC) in 1995 as SPIC Organics Limited and was merged with MPL in 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) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (Prov.)
Total Operating income	1671.47	1177.42	571.32
PBILDT	528.29	74.66	22.18
PAT (after deferred tax)	381.09	50.69	14.97
Overall gearing ratio(times)	0.09	0.09	0.08
Interest coverage(times)	69.24	8.92	5.10

A: Audited; Prov: Provisional. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	50.00	CARE A+; Stable
Fund-based - ST-Bill discounting/bills purchasing		-	-	-	10.00	CARE A1+
Non-fund-based - ST-Bank guarantee		-	-	-	15.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A1+

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 2023-2024	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
1	Fund-based - LT-Cash credit	LT*	50.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Sep-22)	1)CARE A+; Stable (20-Aug-21)	1)CARE A; Stable (30-Mar-21)
2	Non-fund-based - ST-Letter of credit	ST**	25.00	CARE A1+	-	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)
3	Fund-based - ST-Bill discounting/bills purchasing	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)
4	Non-fund-based - ST-Bank guarantee	ST	15.00	CARE A1+	-	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)
5	Fund-based - ST-Working capital limits	ST	-	-	-	1)Withdrawn (05-Sep-22)	1)CARE A1+ (20-Aug-21)	1)CARE A1 (30-Mar-21)

*Long term; **Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - ST-Bill discounting/bills purchasing	Simple
3	Non-fund-based - ST-Bank guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on the 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.

Annexure-6: List of subsidiaries

Subsidiary	% holding as on Mar 31, 2023
AMCHEM Speciality Chemicals Private Limited, Singapore	100%
Step-down Subsidiary	**% holding as on Mar 31, 2023**
Notedome Limited, UK	100%
AMCHEM Speciality Chemicals UK Limited	100%
Penn Globe Limited, UK (PGL)	100%
Penn-White Limited	100%
Pennwhite Print Solutions Limited	100%

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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