

Panama Petrochem Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	64.00 (Enhanced from 59.00)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	585.00 (Reduced from 590.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Panama Petrochem Limited (PPL) factors in the consistent operating performance in FY24 with healthy cash generation.

PPL reported a revenue of ₹2,356.74 crore in FY24 (PY ₹2,248.72 crore), a growth of ~5% in FY24 over FY23. The growth in revenue was driven majorly by growth in sales volume. The operating margins have been consistent at over 13% over FY21-FY23. In FY24 the operating margin marginally impacted to 10.80% (PY:13.74%) owing to decline in sales realisation. However, going forward CARE Ratings Limited (CARE Ratings) expects the operating margins to improve and remain in the range of 11-12% backed by increase in contribution from value-added products and better product mix.

Ratings continue to derive strength from the promoters' experience in the petrochemical industry with diverse product offerings across end-user industries, long-standing relationship with reputed customers, and strong financial risk profile. These rating strengths are partially tempered by susceptibility of its profitability margins to sharp volatility in foreign exchange (forex) rates and base oil prices (being a derivative of crude oil prices), moderately working capital-intensive nature of operations, and exposure to intense competition.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving operating income above ₹2,500 crore on a consistent basis.
- Substantially increasing volumes while maintaining operating margins (PBILDT) at around 13% on a sustained basis.
- Maintaining healthy financial risk profile, and liquidity position.

Negative factors

- Operating profitability declining below 8% on a consistent basis.
- Large-sized debt-funded capex or acquisition impacting the capital structure.
- Deteriorating liquidity position with increasing operating cycle to more than 100 days.
- Net debt/PBILDT increases more than 0.20x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has considered the consolidated business and financial profile of PPL and its wholly owned subsidiary, Panol Industries, RMC FZE (PIRF). Moreover, details about the same have been provided in Annexure-6.

Outlook: Stable

The stable outlook reflects that CARE Ratings believes PPL will continue to benefit from its established market position, healthy product diversity, and longstanding relationship with its customers. PPL is also expected to maintain its healthy financial risk profile over the medium term.

Detailed description of key rating drivers:

Key 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

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

industry verticals growing from a ₹500 crore company to a ₹2,000 crore company over the past 10 years. Amirali Rayani, the Chairman of PPL, and Samir Rayani, the Managing Director and CEO, are looking after day-to-day operations. They are assisted by a team of qualified and experienced professionals. PPL manufactures over 80 product variants of base oil, which is used across end-user industries such as printing ink, resin, cosmetics, rubber products, pharmaceuticals, engineering, textiles, machinery manufacturing, chemical and petrochemical industries among others. The revenue bifurcation based on the various end-user industries to which PPL caters is as follows: white oil (~24%), ink oil (~21%), rubber oil (~19%), textile oil (~19%), drilling oil (~10%), and transformer and automotive lubricant (~7%).

Consistent revenue and PBILDT margins over s

PPL reported a revenue of ₹2,356.74 crore in FY24 (PY ₹2,248.72 crore) reflecting growth of ~5%. The company was able to maintain constant revenue of more than ₹2,000 crore in the last three years from FY22 onwards. Growing demand from end user industries, and reduced competition from unorganised players following the pandemic, supported the growth of the organised players in industry.

The PBILDT margin moderated in FY24 to 10.82% as against 13.74% in FY23. The profitability was impacted in FY24 owing to 9-10% decline in sales realisation and volatile input prices.

Reputed customer base and geographical diversification of revenues

The company caters to a diverse and prestigious customer base, which includes industry leaders such as Hubergroup India Pvt. Ltd (for inks), Reliance Industries Ltd (for textile oil), Dabur (for cosmetics), and ATC Tyre (for rubber oils), among others. Over the past decade, it has consistently met customer orders by delivering customized end products to their specifications. The lengthy approval process, which can take up to a year for each product grade, serves as a significant barrier to entry for potential competitors, thereby strengthening PPL's enduring relationships with its customers.

PPL receives purchase orders from its customers on regular interval. In FY24, approximately 26% of its standalone revenue came from its top 10 customers, highlighting a low level of customer concentration. On a consolidated basis, PPL generates approximately 54% of its revenue from export markets. To enhance its global presence and capitalise on proximity to raw materials, PPL has established a manufacturing facility in Ras Al Khaimah, UAE, managed by its subsidiary, Panol Industries, RMC FZE (PIRF). While PPL provides common management and financial support to its subsidiary, there are no inter-group transactions. PIRF serves the demands of Gulf Oil Corporation in UAE and other companies across the MENA region (Middle East and North Africa). Additionally, PIRF manages PPL's customers in India that have manufacturing operations in the UAE.

Healthy financial risk profile

PPL's capital structure continues to be strong as it has no term debt and total outside liabilities to tangible net worth (TOL/TNW) ratio and overall gearing being as low at 0.43x and of 0.02x, respectively, as on March 31, 2024. In FY24, the interest coverage was 14.20x. Going forward, CARE Ratings observes, the capital structure is expected to remain comfortable owing to healthy GCA, no major debt-funded capex plan, and efficient working capital management.

Key weaknesses

Profitability vulnerable to volatility in base oil prices and forex risk

PPL's profitability remains susceptible to fluctuations in base oil prices, which constitute 85-90% of its total input costs and are derived from crude oil. However, the company mitigates the risk of volatile raw material prices by passing on significant cost increases to its customers. PPL has provisions of adjusting the fluctuations in the raw material prices monthly/quarterly.

Additionally, PPL faces foreign exchange (forex) risk, given that approximately 80% of its raw materials are imported and about 54% of its revenue comes from export markets. To manage this risk, the company has implemented a forex policy: approximately 50% of its exposure is naturally hedged, another 20-30% is hedged through forward contracts. The company is exposed of foreign exchange fluctuations for the balance unhedged portion of foreign exchange transactions.

Competitive nature of the industry

Low entry barriers and limited product differentiation have led to intense competition in the base oil processing industry. Players mostly focus on volume, leading to competitive pricing. However, comfort is derived from the fact that PPL benefits from long association with its customers and has received technical approvals from its key customers for the supply of products. The said technical approvals act as an entry barrier and provide a competitive edge, as obtaining such approvals is time-consuming process.

Liquidity: Strong

The company has strong liquidity position marked by healthy cash accruals and no term debt. PPL also uses its fund-based facilities sparingly with the average utilisation for the past 12 months ending April 2024 being at ~12%. In FY24, the working capital cycle was broadly consistent at 87 days (PY: 70 days). In FY24, PPL reported GCA of ₹206.82 crore (PY: ₹244.10 crore) and as on March 31, 2024, PPL had cash and bank balance of ₹133.17 crore. The company has a planned capex of ~₹75 crore to be incurred over next three years for capacity expansion. The said capex will be funded entirely using internal accruals.

Environment, social, and governance (ESG) risks

Environmental risk: PPL, being present in the petrochemical industry, is exposed to the risk of tightening regulations related to environment norms and industrial safety and potential penalties in case of any non-compliance. Per the disclosures in the annual report of FY23, the company is in compliance with the current applicable environmental rules and regulations. To mitigate the environment risk, PPL has also undertaken steps such as developed various innovative products with international quality standards and techniques to ensure zero environmental impact. PPL implements new ideas for improving efficiencies and minimising the use of input resources.

Social risk: The company's exposure to social risks mainly pertain to safe operations and remaining compliant to all environmental regulations to ensure the safety of employees and the community in the vicinity of its manufacturing units.

Governance risk: PPL is professionally managed, and management has the freedom to run the enterprise within the framework of effective accountability and commit its resources in a manner that meets shareholders' aspirations and societal expectations. The company has policies in place w.r.t code of conduct, related party transactions, and insider trading, etc.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

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

Incorporated in 1982, PPL is engaged in manufacturing 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 at Ankleshwar (Gujrat), Daman (Union Territory), Taloja (Raigadh, Maharashtra), and Dahej (Bharuch, Gujarat) with an aggregate installed capacity of 215,000 MTPA in FY24. Besides, PPL has overseas operations in UAE managed by its wholly owned subsidiary, Panol. Panol has a manufacturing facility at Ras Al Khaimah (UAE) to manufacture transformer oils, industrial lubricants, and rubber process oils, among others, with an installed capacity of 30,000 MT per year.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,132.35	2,248.72	2,356.74
PBILDT	296.00	308.97	255.11
PAT	230.34	232.97	195.15
Overall gearing (times)	0.56	0.25	0.18
Interest coverage (times)	41.94	26.70	14.20

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	64.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	585.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	585.00	CARE A1+	-	1)CARE A1+ (05-Jul-23)	1)CARE A1 (29-Jun-22)	1)CARE A1 (05-Jul-21)
2	Fund-based - LT-Cash credit	LT	64.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-23)	1)CARE A+; Stable (29-Jun-22)	1)CARE A; Stable (05-Jul-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Panol Industries, RMC FZE	Full	Wholly owned subsidiary involved in same line of business.

Note on complexity levels of 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.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Analytical Contacts Achin Nirwani Director CARE Ratings Limited Phone: 022- 6754 3566 E-mail: Achin.nirwani@careedge.in Arunava Paul Associate Director CARE Ratings Limited Phone: 912267543667 E-mail: arunava.paul@careedge.in Akshay Paradkar Lead Analyst CARE Ratings Limited E-mail: Akshay.Paradkar@careedge.in
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About us:

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