Manali Petrochemicals Limited

December 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE A+; Stable	Assigned
Long-term bank facilities	25.00 (Reduced from 50.00)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	25.00	CARE A+; Stable / CARE A1+	Assigned
Short-term bank facilities	25.00	CARE A1+	Reaffirmed
Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Manali Petrochemicals Limited (MPL) takes into account the strong financial profile, marked by a comfortable capital structure, and liquidity position. Ratings take note that the company's products are import substitutes and with the availability of cheaper imports the realisations have come under pressure in recent times leading to a drop in profitability at the standalone level. However, the company has been able to maintain its volumes and stable performance of the subsidiaries which are into specialty chemicals, that have cushioned the drop in the standalone performance of the company. Ratings continue to draw comfort from the long-standing operational track record of the company with a product portfolio that caters to diverse end-user segments.

However, ratings continue to be constrained by the presence in a cyclical industry dominated by imports from global integrated players who enjoy benefits of scale and a diverse product profile. Furthermore, limited control over the pricing of finished goods and raw material price volatility restricts the company's profit margins.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the proposed bank guarantee and bill discounting facilities of MPL with immediate effect, as the company has not availed the aforementioned proposed limits and there is no amount outstanding under the facility as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations of ~₹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 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

CARE Ratings has adopted a Consolidated approach for analysing MPL, which has two wholly owned subsidiaries and four step-down subsidiaries. List of subsidiaries is given in Annexure-6.

Outlook: Stable

The stable outlook reflects 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 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

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

domestic manufacturer of PG. As most domestic customers do not prefer to rely entirely on imports for raw materials supply, MPL's status as the exclusive domestic producer of PG proves advantageous.

Relationships with reputed customers across diverse industry verticals

MPL derives ~65% of its revenue from PG and polyols. The company strategically serves a diverse range of end-user industries, mitigating the risk of concentration in 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 such as 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 42% of the total operating income (TOI), thus limiting the risk of concentration to a particular customer.

Diversification benefits due to subsidiaries

MPL has two major step-down subsidiaries in the UK, Penn-White Ltd and Notedome Limited, both operating under the investment arm, Amchem Speciality Chemicals Private Limited, Singapore. Notedome specialises in manufacturing Neuthane polyurethane cast elastomers, serving primarily the automotive and agricultural sectors. Penn-White Ltd focuses on producing foam control agents, anti-static agents, release agents, lubricants, silicone removers, and silicone emulsions.

These subsidiaries have collectively contributed ~23% to the consolidated TOI in FY24, up from 13% in the previous year. The improved performance of these subsidiaries has expanded MPL's geographical reach, with international sales increasing to 23% in FY24 (PY: 15%). Additionally, the sales mix of specialty chemicals improved to 30% in FY24, compared to 21% in the previous year, driven by the contributions of these international subsidiaries.

Status on capacity expansion plans

MPL is expanding its PG capacity from 22,000 TPA to 54000 TPA at an estimated cost of ~₹100 crore. An addition of the above new capacity in MPL is expected to increase the domestic market share of MPL and improve its operations. To fund this expansion, it has secured a term loan of ₹50 crore. As on September 30, 2024, the company has already expended ~₹25 crore on the project. The company has also announced that it is going to set up a polyester polyol plant for a cost of ₹40 crore. This is also expected to be funded entirely out of internal accruals. As on September 30, 2024, MPL has incurred ₹22 crore for the project. Both the projects are expected to be completed in FY26. Additionally, the company is also exploring to increase its presence in the western market by setting up a manufacturing unit in Gujarat.

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 Indian market at lower prices. Top players control ~40% of the polyol and PG market giving them enormous control over pricing strategies.

The products manufactured by MPL are import substitutes; the Indian polyol and PG markets are still dominated by cheaper imports. The company faces competition from imports primarily from above major international players wielding considerable clout in terms of pricing. MPL prices its finished products based on the respective landed costs of imports which limits control over the end-product pricing. FY21 and FY22 were unique years in the petrochemical industry due to disruptions in the global petrochemicals companies and global supply chain. As a result of supply shortage in PO and 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. However, since H2FY23, especially after the opening up of China, the imports have seen a resurgence. With slowdown in China's economy, imports to India has been higher leading to lowering of realisations for domestic players such as MPL. Despite the negative impact on realisations, MPL has been able to maintain its PG sales volume at similar levels. The realisation of PG and polyol dropped by ~20% and ~8%, respectively, in FY24 against FY23. Volume of polyol also dropped by ~19% in FY24 compared to FY23 and dropped further by ~72% in H1FY25 against H1FY24.

Exposure of margins to volatility in raw material prices

The price of raw materials such as propylene and PO have remained volatile in the past, depending on crude price. However, finished products prices manufactured by MPL generally move in tandem with raw material prices, although with some time lag. As the industry is characterised by price volatility, the earnings before interest, taxation, depreciation, and amortisation (EBITDA) margins of the company also remain volatile. The company mitigates this to a certain extent due to lower freight costs as the plants of major raw material suppliers are contiguous to MPL's plant. The company's dependence on imported PO is low since it has its own PO plant and also sources from one of its group companies.

Industry risk and prospects

The petrochemical industry is a cyclical industry characterised by volatility in both feedstock prices and demand. The demand for the petrochemicals generated from the downstream industries depends 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 new entrants. 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 off-take 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. To promote domestic players, the Indian government imposed ADD on imported polyols from China, Thailand, Saudi Arabia, and the UAE since 2021.

Going forward, the PG and polyols markets are expected to have a steady growth driven by growth in pharma applications and auto segment, respectively. However, the industry expected to face substantial challenges due to China's aggressive dumping practices and the consequent price drops. The company's ability to sustain its current market share and scale up the operations as anticipated while maintaining the margins would remain key to the company's prospects.

Liquidity: Strong

The liquidity position is strong with cash and bank balances of ₹348.49 crore as on September 30, 2024, with no debt repayment obligations except lease payments. MPL receives credit period of 30-60 days for its procurement and provides credit period 40-50 days for its customers. The average utilisation remained low at 15.39% for the company for 12 months ended August 2024.

Environment, social, and governance (ESG) risks

Environmental: The company is into manufacturing chemicals leading to environmental issues, especially relating to the waste disposals. MPL has full-fledged ETP system in place to treat the trade effluents with Biological Oxidation technology and the treated effluent discharges are meeting the prescribed norms of PCB for marine disposal. The company has also undertaken efforts to make eco-friendly products.

Social: The company has undertaken activities towards providing preventive health care, promoting education including special education and employment enhancing vocation skill among others. As on March 31, 2024, the company has 336 permanent employees, 644 persons employed as workers with ~13% of the employees being women. There has been no complaints on human rights issues, There are almost 116 complaints filed by employees on working conditions and health & safety out, of which 30 still remain unresolved.

Governance: The company is a listed company complying with the clause 49 of the listing agreement. The company has 10 directors, of which five are independent directors. Of the rest, three directors are non-executive, non-independent, and two are executive director. The company has also formed the required statutory committees, including Audit committee, Nomination and Remuneration Committee, and CSR committee among others. The Audit committee is headed by Latha Ramanathan (Independent Director) who is a member of ICAI.

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
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Petrochemicals

MPL, a part of the AM International group, is a Chennai-based manufacturer of petrochemical products, 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 2000. MPL's products are import substitutes and cater to a wide variety of end-user industries. It 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)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1671.47	1177.42	1032.56	470.64
PBILDT	528.29	74.66	47.06	24.58
PAT (after deferred tax)	381.09	50.69	19.17	13.22
Overall gearing ratio (times)	0.09	0.09	0.11	0.09
Interest coverage (times)	69.24	8.92	4.90	4.84

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	25.00	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	March 2031	50.00	CARE A+; Stable
Fund-based - LT/ ST-Working capital demand loan	-	-	-	-	25.00	CARE A+; Stable / CARE A1+
Fund-based - ST-Bill discounting/ Bills purchasing	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank guarantee	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	-	25.00	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	Fund-based - LT-Cash credit	LT	25.00	CARE A+; Stable	-	1)CARE A+; Stable	1)CARE A+; Stable (05-Sep-22)	1)CARE A+; Stable

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
						(17-Nov-23)		(20-Aug-21)
2	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A1+	-	1)CARE A1+ (17-Nov-23)	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)
3	Fund-based - ST-Bill discounting/ Bills purchasing	ST	-	-	-	1)CARE A1+ (17-Nov-23)	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)
4	Non-fund-based - ST-Bank guarantee	ST	-	-	-	1)CARE A1+ (17-Nov-23)	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (20-Aug-21)
5	Fund-based - ST-Working capital limits	ST	-	-	-	-	1)Withdrawn (05-Sep-22)	1)CARE A1+ (20-Aug-21)
6	Fund-based - LT/ ST-Working capital demand loan	LT/ST	25.00	CARE A+; Stable / CARE A1+				
7	Fund-based - LT-Term loan	LT	50.00	CARE A+; Stable				

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT/ ST-Working capital demand loan	Simple
4	Fund-based - ST-Bill discounting/ Bills purchasing	Simple
5	Non-fund-based - ST-Bank guarantee	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	AMCHEM Speciality Chemicals Private Limited, Singapore	Full	Subsidiaries
2	Manali Speciality Private Limited, India	Full	
3	Notedome Limited, UK	Full	
4	Penn White Limited, UK	Full	
5	Notedome Europe GmbH, Germany	Full	
6	Pennwhite India Private Limited, India	Full	

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

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About us:
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