Manali Petrochemicals Limited

January 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	**40.44**	**CARE A- (Single A Minus) (Credit Watch with developing implications)**	**Placed on credit watch with developing implications**
Short-term Bank Facilities	**59.56**	**CARE A1 (A One) (Credit Watch with developing implications)**	**Placed on credit watch with developing implications**
Total Bank Facilities	**100 (Rupees One hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manali Petrochemicals Limited (MPL) have been placed under 'credit watch with developing implications' in view stoppage of operations in Plant 1 on account of the notice received by the company from the Central Pollution Control Board seeking to stop operations citing certain shortcomings. It is to be noted that Plant 1 contributes to significant portion of total income of the company. The Company is addressing the issues and is taking necessary actions. CARE will take a view on the ratings once more clarity emerges on the implications of the above development.

The ratings continue to factor in the long-standing operational track record of the company with a diversified product portfolio, healthy cash accruals and comfortable capital structure. However, the ratings continue to be constrained by the cyclical nature of the petrochemical industry, competition from well-established global players and limited control over raw material and finished goods prices limiting the profitability margins. The ratings also take note of MPL's significant investment in subsidiaries.

Going forward, the global demand supply dynamics of its major products, improvement in profitability, any further significant exposure to its subsidiaries and continuity of profitable performance on a consolidated level will be critical for its financial prospects and will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations

MPL has been in operations for more than three decades in the business of manufacture of petrochemical products namely Propylene Oxide (PO), Propylene Glycol (PG), Polyols and others. MPL is the only domestic company engaged in the production of such petrochemical products which are used in pharmaceuticals, polyurethane, resin, fragrances, food, refrigeration and oil drilling industries, among others.

Financial risk profile characterized by healthy cash accruals and comfortable capital structure

The company's financial risk profile continued to remain strong characterized by comfortable capital structure and healthy cash accruals. During FY17, MPL's growth was flat with TOI at Rs.587 crore (PY: Rs.591 cr). During FY17 (refers to the period April 01 to March 31), the capacity utilization of the plant for PO and PG improved as against the previous year. The sales volume of key products (PO, PG, Polyols) of MPL improved in FY17. The cost per unit of key raw material like Propylene and Lime declined y-o-y by 9% and 11% respectively in FY17, however the sales realizations of key products like PG (decline by 11%), Slab Stock Polyols (y-o-y decline by 13%) and Systems Polyols (y-o-y decline by 6%) witnessed higher decline on account of competition. This apart, demonetization also affected the sales to an extent in FY17 on account of unorganized sector of few end user segment.

MPL's PBILDT margin moderated in FY17 at 11.03% as against PBILDT margin of 13.19% in FY16, majorly on account of decline in sales realizations.

During 9MFY18, MPL registered PAT of Rs.28 crore (PY: Rs.36 crore) and GCA of Rs.37 crore (PY:46 crore) on TOI of Rs.457 crore (PY: Rs.443 crore). During the period, the sales realization of key products improved in tandem with increase in raw material prices, however the profitability moderated on account of higher fuel cost and repair and maintenance expense for captive power plant.

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

With healthy cash accruals and low capex requirements, MPL continued to have low debt with no long term debt as on March 31, 2017. The overall gearing remained comfortable at 0.24x as on March 31, 2017 as against 0.12 times as on March 31, 2016. Total debt to GCA was comfortable at 1.47 times and Interest coverage remained healthy at 34.79 times for FY17. During FY18, the company registered PAT of Rs.55 crore and GCA of Rs.71 crore on total operating income of Rs.647 crore. The total debt of the company was Rs.17 crore and Rs.9 crore as on March 31, 2018 and September 30, 2018.

Key Rating Weaknesses

Risk on raw material sourcing

The primary supplier of propylene (major raw material) for MPL is Chennai Petroleum Corporation Limited (CPCL; CARE AAA (Stable)). In case of shortages from CPCL, propylene is sourced from Bharat Petroleum Corporation Limited (BPCL), Cochin. The propylene procured by the company is processed into PO and used further for the manufacture of either PG or Polyols. Due to restrictions imposed on the capacity of PO plant and flooding of plant in Q3FY16 due to rainfall resulted in higher imports of PO in FY16, however the imported PO quantity declined in FY17. Going forward, ability of MPL to source imported PO at favourable prices would also influence the profit margins.

Profit margins exposed to volatility in raw material prices, competition and limited control on end product prices

Since the products manufactured by MPL are import substitutes, the company faces competition from imports primarily from 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 which are derivatives of crude oil. MPL prices its finished products based on the respective landed costs of imports and hence has limited control over the end product pricing. Further, there is high import of these products into India due to the incremental capacities set up by foreign companies in South-East Asia. Though, the company has successfully sought for review of anti-dumping duty on certain products and also taking steps to diversify its product mix, such competition may affect MPL's profitability.

Investment in subsidiaries

In the absence of major capex plans and nil long term debt, the capital structure of MPL has remained comfortable. MPL has been searching for opportunities to invest and expand the operations in the other geographies. For this purpose, the company had set up a Wholly Owned Subsidiary (WOS), AMCHEM Speciality Chemicals Private Limited, Singapore (Amchem) in September'15 to identify potential investments opportunities across the globe and hold all the foreign assets of MPL.

In September'16, MPL acquired Notedome Limited (Notedome), UK, a profitable company 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. Notedome, is into manufacturing Neuthane Polyurethane Cast Elastomers catering to customers primarily in automotive and agriculture sector. The total exposure of the company (mainly in Amchem Singapore for acquiring Notedome) stood at Rs.110 crore, translating to ~32% of tangible networth as on December 31, 2017.

Cyclical nature of the petrochemical industry

Globally, the petrochemical industry is a cyclical industry characterized by volatility in both feedstock prices and demand. Demand for the petrochemicals generate from the downstream industries, which are dependent on the state and growth of the economy and in turn could influence the derived demand for MPL's products. However, MPL's products are mainly used in Pharmaceutical, Food flavors and furniture applications and the demand is relatively insulated against the cyclicality of base petroleum products.

Analytical approach: *Standalone*

Applicable Criteria

Rating Methodology-Manufacturing Companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)
CARE's methodology for Short-term Instruments
Factoring Linkages in Ratings

About the Company

Manali Petrochemicals Limited is a Chennai-based manufacturer of petrochemical products like Propylene Oxide (PO), Propylene Glycol (PG) and Polyols. MPL's products are import substitutes and cater to a wide variety of the end-user industries. MPL is the only domestic player in the segments in which it operates and faces competition from imports. The company has two manufacturing plants located at Manali near Chennai.

'SIDD Life Sciences Private Limited' (SIDD) is currently the largest shareholder in MPL with 38.28% of shareholding as on March 31, 2017. South India Drugs and Devices Private Ltd was set up in 1988 and is engaged in providing medical devices for tertiary care such as blood oxygenators and cardiotomy reservoirs, life support segments as well airway management, neurology and transfusion and was later renamed as SIDD. The other major shareholder in the company is Tamil Nadu Industrial Development Corporation Limited (TIDCO), which holds 6.52% stake in the company.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	591	587
PBILDT	78	65
PAT	48	40
Overall gearing (times)	0.12	0.24
Interest coverage (times)	30.96	34.79

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

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

Analyst Contact:
Name: Mr P Sudhakar
Tel: 044-2849 7812
Email: p.sudhakar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	40.44	CARE A- (Under Credit watch with Developing Implications)
Non-fund-based - ST-Letter of credit	-	-	-	16.31	CARE A1 (Under Credit watch with Developing Implications)
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.25	CARE A1 (Under Credit watch with Developing Implications)
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A1 (Under Credit watch with Developing Implications)
Fund-based - ST-Working Capital Limits	-	-	-	30.00	CARE A1 (Under Credit watch with Developing Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	40.44	CARE A- (Under Credit watch with Developing Implications)	1)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (24-Apr-17)	1)CARE A- (13-Apr-16)	1)CARE A- (02-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	16.31	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (06-Apr-18)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.25	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (06-Apr-18)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (06-Apr-18)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)
5.	Fund-based - ST-Working Capital Limits	ST	30.00	CARE A1 (Under Credit watch with Developing Implications)	1)CARE A1 (06-Apr-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691