

Manali Petrochemicals Limited

January 25, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|------------------------------|---|--|--|
| Long-term Bank Facilities | 40.44 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed; Removed from credit watch |
| Short-term Bank Facilities | 59.56 | CARE A1 (A One) | Reaffirmed; Removed from credit watch |
| Total Bank Facilities | 100.00 (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 removed from credit watch in view of restart of operations in Plant 1 on January 16, 2019 pursuant to Central Pollution Control Board revoking its earlier direction seeking to stop operations citing certain shortcomings.

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.

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.

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

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 network 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 cyclicity 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: 044-2850 1003

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | 16.31 | CARE A1 |
| Fund-based - ST-Bills discounting/ Bills purchasing | - | - | - | 10.25 | CARE A1 |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 3.00 | CARE A1 |
| Fund-based - ST-Working Capital Limits | - | - | - | 30.00 | 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 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-; Stable | 1)CARE A- (Under Credit watch with Developing Implications) (04-Jan-19) 2)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 | 1)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 2)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 | 1)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 2)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 | 1)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 2)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 | 1)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 2)CARE A1 (06-Apr-18) | - | - | - |

CONTACT**Head Office Mumbai**

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

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

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