Manali Petrochemicals Limited

March 18, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	50.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	50.00	**CARE A1 (A One)**	**Reaffirmed**
Total Bank Facilities	**100.00 (Rupees One hundred crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Manali Petrochemicals Limited (MPL) continues to factor in the long-standing operational track record of the company with a diversified product portfolio, healthy cash accruals and comfortable capital structure.

The ratings are however constrained by the cyclical nature of the petrochemical industry, competition from well-established global players, limited control on raw material and finished goods prices impacting the profitability margins, exposure to group companies and high amount of contingent liabilities.

Key Rating Sensitivities:

Positive Factors:

- Sustained increase in the scale of operations marked by total operating income in the range upwards of Rs. 1000 crores and maintaining comfortable profitability parameters.

Negative Factors:

- Moderation in profitability marked by PBILDT margins dropping below 8%.
- Any substantial debt funded capex or acquisition leading to deterioration in capital structure marked by overall gearing in the upwards of 0.80x.
- Any adverse outcome from the disputed lease rental claim.

Detailed description of the key rating drivers

Long track record of operations characterized by diverse product portfolio and end use segment

MPL has been in operations for more than three decades in the business 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, fragrances, food, footwear, Paint & coatings, automotive, refrigeration and oil drilling industries, among others. The major products manufactured by the company are Propylene Glycol and polyols accounting for 30.46% and 48.95% of the total operating income of the company. While PG caters to the Pharmaceuticals industry, the polyols especially the base and system polyols cater to the automobile industry, accounted for 24.94% of the total operating income in FY19.

Financial risk profile characterized by healthy cash accruals and profitability albeit moderation in 9MFY20

The company's financial risk profile continued to remain comfortable characterized by healthy capital structure and cash accruals. During FY19, MPL witnessed growth of 9.50% in TOI on y-o-y basis with TOI at Rs. 701.24 crore (PY: Rs. 642 crores). The PBILDT margins have been in the range of 9.50% to 13.10% in the last five year period ending FY19. The improvement in TOI and profitability was contributed by improvement in sales realizations, which made up for the drop in off take of volumes across its major product line polyols and propylene glycol. The revenue and profitability has been impacted in 9MFY20 as the company has witnessed a fall in realizations and drop in off take in volumes especially of base and system polyols which fell 12.72% (annualized) in 9MFY20 owing to slow down in the auto sector. The revenue from operations fell 8.20% in the period 9MFY20 from Rs. 538.20

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

crores in 9MFY19 to Rs. 494.12 crores in 9MFY20 while the PBILDT margins fell from 13.38% in 9MFY19 to 9.74% in 9MFY20. The company reported a PAT of Rs 27.08 crore for 9MFY20 as against Rs. 44.23 crores.

Comfortable capital structure
With healthy cash accruals aiding consistent increase in net worth base over the years, MPL continued to have low debt with no long term debt as on March 31, 2019. The overall gearing remained comfortable at 0.04x as on March 31st, 2019 as against 0.09x as on March 31, 2018.

Investment in subsidiaries
MPL has been constantly looking out for acquisition targets which could help the company in product differentiation through unique formulations and IP rights. For this purpose, the company had set up a Wholly Owned Subsidiary (WOS), AMCHEM Speciality Chemicals Private Limited, Singapore (Amchem) in Sep'15 and invested Rs 110 crore to identify potential investments opportunities across the globe and hold all the foreign assets of MPL. In Sep'16, MPL acquired Notedome Limited (Notedome), UK, which is engaged in manufacture of iso-cyanate and cast elastomers, through a UK subsidiary of Amchem Singapore, AMCHEM Speciality Chemicals UK Limited, thereby making both of the companies as step-down subsidiaries. Notedome Limited, UK reported a PAT of about Rs. 5.93 crores on an income of about Rs. 108.08 crore in FY19.

Capital expenditure pertaining to environmental compliance and process efficiency
The company completed the project for revamp of the Effluent Treatment facilities at both the Plants at an aggregate cost of Rs. 17 crore incurred over the last 2 years. Post revamp, MPL had encountered issues related to meeting the extant environmental norms stipulated by the authorities, due to disparity in methods adopted in testing the treated effluent, there were variations in the values arrived at by the Central Pollution Control Board (CPCB) and the company, which led to temporary closure of Plant 1 for about 22 days during FY19. The company complied with the further directions of the CPCB in the matter and the earlier order for closure was revoked by the authorities. The company has been incurring capex to improve its process efficiency like technology up gradation, new boilers with condensing units, chiller system etc. to stay competitive against cheaper imports and keep its margins intact.

Key Rating Weaknesses
Risk on raw material sourcing
The primary supplier of propylene (major raw material) for MPL is Chennai Petroleum Corporation Limited (CPCL). 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 PG and Polyol. In case of shortages/ shutdowns at CPCL, propylene is sourced by means of tankers from Indian Oil Corporation Ltd (IOCL), Panipat, Mathura and GAIL, entailing additional cost on freight which could impact the profitability of the company.

Profit margins susceptible to volatility in raw material prices and limited control on end product prices
MPL prices its finished products based on the respective landed costs of imports and hence has limited control over the end product pricing. The company faces competition from imports primarily from major international players wielding considerable clout in terms of pricing. The new facilities set up by major players with higher capacities offer higher quantity of polyols to Indian market at lower prices. The PU industry is concentrated globally and a major portion of the supplies are controlled by smaller number of producers. The top manufacturers control over 60% of the total PU production giving them enormous control over product pricing & other strategies.The company's profitability as defined by PBDIT margins which was above 13% over the last two financial years has dropped to 9.74% in 9MFY20. The drop was on account of volatile raw material prices especially that of propylene the primary raw material and lower realizations.

Claims against the company by government authorities
The company in Q4FY19 received a letter from Thasildar, Tiruvottiyur, demanding payment of Rs.198.4 crore (44.93% of the net worth) as arrears of lease rent up to 2016 relating to land leased out to plant-II. The company had received a similar claim for Rs.16.80 crore as lease arrears up to June 2013 without any details, and the company had created a provision for this claim in FY15 which was reversed in FY19. Notwithstanding the above

claims, the Company continues to make payment of the lease rent at contracted rates. The value of the claim is significantly large when compared to the net worth of the company and the outcome of the resolution of this would remain a key rating sensitivity.

Liquidity – Strong

The current ratio of MPL remained comfortable at 2.06x (PY: 1.77x) as on March 31, 2019. MPL receives credit period of 45-90 days for its procurement and provides credit period 40-50 days for its customers. Average working capital utilization of MPL for the twelve months period ended Dec'19 remained low at 3.73% as majority of the working capital requirement is met through internal sources. This apart MPL also has free cash and liquid investments of Rs.41.46 crores as on September 30, 2019 as compared to Rs. 44.87 crores as on March 31, 2019.

Analytical approach: Standalone.

Applicable Criteria

CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios (Non-Financial Sector)

About the Company

Manali Petrochemicals Limited is a Chennai-based manufacturer of petrochemical products like Propylene Oxide (PO), Propylene Glycol (PG) and Polyols. 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, 2019. 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)	FY18 (A)	FY19 (A)
Total operating income	642	701
PBILDT	85	92
PAT	55	66
Overall gearing (times)	0.09	0.04
Interest coverage (times)	30.30	53.38

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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	-	-	-	50.00	CARE A-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE A1
Non-fund-based - ST-Bank Guarantees	-	-	-	15.00	CARE A1
Fund-based - ST-Working Capital Limits	-	-	-	10.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE A-; Stable	1)CARE A-; Stable (05-Apr-19)	1)CARE A-; Stable (25-Jan-19) 2)CARE A- (Under Credit watch with Developing Implications) (04-Jan-19) 3)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (24-Apr-17)	1)CARE A- (13-Apr-16)
2.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1	1)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 3)CARE A1 (06-Apr-18)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A1	1)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)

						3)CARE A1 (06-Apr-18)		
4.	Non-fund-based - ST-Bank Guarantees	ST	15.00	CARE A1	1)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 3)CARE A1 (06-Apr-18)	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)
5.	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A1	1)CARE A1 (05-Apr-19)	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 3)CARE A1 (06-Apr-18)	-	-

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.*

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