Manali Petrochemicals Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	50.00 (enhanced from 40.44)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	50.00	**CARE A1 (A One)**	**Reaffirmed**
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) 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. However, the ratings continue to be constrained by the cyclical nature of the petrochemical industry, competition from well-established global players, limited control on raw material and finished goods prices whose prices remain volatile 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 any major debt funded capex 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, fragrances, food, footware, Paint & coatings, automotive, refrigeration and oil drilling industries, among others. with top 10 customers contributing around 46% of TOI in FY18.

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

The company's financial risk profile is characterized by healthy cash accruals and comfortable capital structure. During FY18, MPL witnessed growth of 11% in TOI on y-o-y basis with total operating income (TOI) at Rs.642 cr (PY: Rs.587 cr). The PBILDT margin also improved at 13.31% in FY18 as against 11.48% in FY17. The improvement in TOI and profitability was contributed to improvement in sales realizations of major products viz PG (increased by 9%), Slab Stock Polyols (increased by 13%) and Systems Polyols (increased by 5%). The company also witnessed increase in sales volume of key product viz PG by 11%. However, on account of change in product mix, the sales volume of Slab Stock Polyols (decline by 4%) and Systems Polyols (decline by 3%) witnessed decline in FY18. The increased profitability was impacted to an extent by higher raw material cost of key raw material viz Propylene (increase of 17% in FY18).

During 9MFY19, MPL registered PAT of Rs.44 cr (PY: Rs.28 cr) and GCA of Rs.58 cr (PY:38 cr) on TOI of Rs.543 cr (PY: Rs.457 cr). During the period, the sales realization continued the increasing trend resulting in PBILDT margin of 14.16%.

[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, 2018. The overall gearing stood at 0.09x as on March 31, 2018 and 0.11 x as on December 31, 2018 as against 0.23 times as on March 31, 2017. Total debt to GCA was at 0.47 times and Interest coverage was 30.30 times for FY18. MPL had liquid investments and free cash and bank balance of Rs.58 crore as on March 31, 2018 and Rs.73 cr as on December 31, 2018.

Liquidity

The working capital utilization remained low at 3% for the twelve months ended December 2018. Current ratio of MPL remained stood at 1.77x as on March 31, 2018 and the company had free cash and bank balance of Rs.73 cr as on December 31, 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). 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.

During Q3FY19 MPL sourced raw material at a higher cost from alternate supplier for few weeks as the CPCL plant was shut for routine maintenance. This resulted in moderation in profit margins during that period. However MPL has a long term contract with CPCL for supply of raw material which is renewed at expiry ensuring continued supply. MPL also imports PO in small quantity. Also during the end of Dec'18 the operations in one of the two plants was stopped on account of notice received by the company from the Central Pollution Control Board seeking to stop operations citing certain shortcomings, however based on the MPL's submission of information to CPCB, and relevant explanations given, CPCB lifted the closure notice in Jan'19 and operations resumed.

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. Furthermore, 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

MPL had 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 and invested Rs 110 cr 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 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. Total exposure in the form of investments in Amchem Singapore stands at Rs.110 crore (mainly for acquiring Notedome) translating to ~26% of tangible networth as on Dec 31, 2018.

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.

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, 2018. 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)	FY17 (A)	FY18 (A)
Total operating income	587	642
PBILDT	67	85
PAT	42	55
Overall gearing (times)	0.23	0.09
Interest coverage (times)	36.23	30.30

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.*

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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 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	50.00	CARE A-; Stable	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)	1)CARE A- (02-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit	1)CARE A1 (24-Apr-17)	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)

					watch with Developing Implications) (04-Jan-19) 3)CARE A1 (06-Apr-18)			
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	10.00	CARE A1	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)	1)CARE A1 (02-Apr-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	15.00	CARE A1	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)	1)CARE A1 (02-Apr-15)
5.	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A1	1)CARE A1 (25-Jan-19) 2)CARE A1 (Under Credit watch with Developing Implications) (04-Jan-19) 3)CARE A1 (06-Apr-18)	-	-	-

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