Manali Petrochemicals Limited

April 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	60	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	40	**CARE A1 (A One)**	**Reaffirmed**
Total 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, financial risk profile marked by healthy cash generation and low debt levels. 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. The ratings also take note of MPL's significant investment in subsidiaries.

Going forward, the global demand supply dynamics of its major products, the company's ability to optimally utilise the expanded manufacturing capacities and maintain its 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 and these products are used in pharmaceuticals, polyurethane, resin, fragrances, food, refrigeration and oil drilling industries, among others.

Financial risk profile marked by healthy cash accruals and low debt levels

During FY16, MPL's net sales stood at Rs.581 crore in FY16 (refers to the period April 1 to March 31) as against Rs.732 crore in FY15. The decline in sales is mainly attributed to drop in sales volumes and fall in crude prices in FY16 thereby resulting in lower sales realisations of all products manufactured by MPL. Due to restrictions imposed on operating the capacity at optimal levels and flooding of the plant during November and December 2015 due to Chennai rains, resulted in lower capacity utilization of the plant. However, with significant drop in raw material prices of propylene by 29% in line with falling crude prices, MPL's PBILDT margin stood at 13.19% in FY16 as against PBILDT of 10.31% in FY15. During FY16, MPL registered PAT of Rs.48 crore (PY: Rs.37 crore) and cash accruals of Rs.53 crore(PY: Rs.37 crore). During 9MFY17, MPL's PBILDT stood at Rs.60 crore on total operating income of Rs.443 crore as against PBILDT of Rs.58 crore on total operating income of Rs.463 crore in 9MFY16.

Comfortable Capital Structure

With healthy cash accruals and low capex requirements, MPL continued to be nearly debt free with no long term debt as on March 31, 2016. The overall gearing remained comfortable to 0.12 times as on March 31, 2016 as against 0.15 times as on March 31, 2015. Total debt/ GCA were comfortable at 0.65 years and Interest coverage remained healthy at 30.96 times for FY16.

[1]*Complete 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). In case of shortages/ shutdowns at 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 November and December 2015 due to rainfall resulted in higher imports of PO. Going forward, ability of MPL to source imported PO at favourable prices and increase capacity utilisation of derivative plants would determine not only the optimal utilisation of its capacities but also influence the profit margins.

Limited control over raw material and finished products prices and cyclical nature of the industry

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.

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.

Significant investment in subsidiaries and exposure to promoter group related entities

MPL has generating healthy cash accruals in the past few years. In the absence of major capex plans and no 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 by investing capital of Rs.4.5 crore in order to identify potential investments opportunities across the globe and hold all the foreign assets of MPL.

In September'16, MPL identified United Kingdom based Notedome Limited, a profitable company with negligible debt and engaged in similar line of business. In order to facilitate the acquisition, Amchem has promoted a subsidiary in U.K, AMCHEM Speciality Chemicals UK Limited which in turn has acquired Notedome thereby making both of the companies as step-down subsidiaries. MPL has invested Rs.108 crore in Amchem as on December 31, 2016. The same has been funded through liquidation of investments of Rs.64 crore parked in mutual funds as on March 31, 2016 and internal cash generation.

Further, MPL has extended ICDs of Rs.8 crore and investment of Rs.4 crore in Mercantile Ventures Ltd (MVL) as on December 31, 2016. However, Subsequently Rs.8 crore from MVL has been realised on April 4, 2017. The total investments of MPL in its subsidiaries stood at Rs.108 crore, translating to ~38% of tangible networth as on December 31, 2016.

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 only from the 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, 2016. 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.

For FY16 (refers to the period April 1 to March 31), MPL reported PAT (after deferred tax) of Rs.48 crore on total operating income of Rs.591 crore. For 9MFY17 (refers to the period April 1 to December 31), MPL reported PAT (after deferred tax) of Rs.36 crore on total operating income of Rs.443 crore.

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.*

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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	-	-	-	60.00	CARE A-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A1
Non-fund-based - ST-Letter of credit	-	-	-	36.75	CARE A1
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	0.25	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	60.00	CARE A-; Stable	-	1)CARE A- (13-Apr-16)	1)CARE A- (02-Apr-15)	1)CARE A- (23-Apr-14)
2.	Non-fund-based - ST-Letter of credit	ST	36.75	CARE A1	-	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)	1)CARE A1 (23-Apr-14)
3.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	0.25	CARE A1	-	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)	1)CARE A1 (23-Apr-14)
4.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A1	-	1)CARE A1 (13-Apr-16)	1)CARE A1 (02-Apr-15)	1)CARE A1 (23-Apr-14)

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