October 01, 2021

Panama Petrochem Ltd: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	6.0	6.0	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Non-fund Based Limits	73.0	73.0	[ICRA]A1; upgraded from [ICRA]A2+
Total	**79.00**	**79.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade takes into account Panama Petrochem Ltd (PPL) healthy financial profile characterised by strong revenue growth of 44% in FY2021 on the back of growing demand from end-user industries along with improved sales realization, and comfortable capital structure and coverage indicators. ICRA expects the revenue's upward trajectory to continue and the capital structure to remain comfortable following healthy accruals and limited capex. Furthermore, at a consolidated level, the cash and bank balance stood at Rs. 74.8 crore as on March 31, 2021, which will be sufficient to fund PPL' capex requirement. The company's operating profit margin also improved to 13.2% in FY2021 compared to 5.5% in FY2020 due to cost rationalisation measures undertaken by it, focus on high margin products, higher utilisation of capacity and increase in raw material prices. Growing demand coupled with reduced competition from unorganised players following the Covid-19 pandemic also supported the revenue growth and profit margin. While ICRA expects some moderation in profit margin, it is expected to remain healthy, going forward.

The ratings also consider the established track record of the company in the white oil and allied oils business, along with its strong customer base and long-term relationships with reputed companies across multiple industries. The company's product profile is well diversified across various end-user industries, such as cosmetics, ink, rubber, textiles, transformer and lubricants, thereby mitigating the risks from slowdown in any particular sector. The ratings also favourably consider the diversified manufacturing presence of the company through four manufacturing units in India that are strategically located to cater to different industrial clients for different kinds of oil. Further, the company has a manufacturing unit at Ras Al Khaimah, the UAE, under its wholly-owned subsidiary, Panol Industries RMC, which enjoys proximity to the base oil suppliers in West Asia and caters to the demand for its products in the region. There is a healthy diversification of the company's revenues in both domestic and overseas markets with about 40% of its sales coming from exports. The geographical diversification helps mitigate risks from slowdown in any particular market.

The ratings are, however, constrained by the vulnerability of PPL's profitability to fluctuations in forex rates and base oil prices, which are volatile being crude oil derivatives. The company's operations are also exposed to high competition in the industry from other established and unorganised players. The company's net working capital intensity has remained moderately high; however, reducing over the last three fiscals following conscious measures undertaken by the management to reduce its receivables. The debtor days reduced from 91 days in FY2020 to 82 days in FY2021, despite Rs. 962 crore of revenues generated in H2 FY2021.

The Stable outlook on the long-term rating reflects ICRA's opinion that PPL will continue to benefit from its established relationships with its reputed customers, application in diversified industries and a healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Established track record in white oil and allied oils business – The company is an established player in the liquid paraffin/white oil business with more than 35 years of experience. The company manufactures over 80 variants of oils, which are used across multiple industries.

Financial profile characterised by healthy revenue growth and improvement in profit margin in FY2021; capitalisation and coverage ratios remain comfortable – At a consolidated level, the company reported healthy revenue growth of 44% in FY2021 and stood at Rs. 1,447.0 crore compared to Rs. 1,002.8 crore in FY2020 on the back of healthy sales volume and higher average sales realisations. ICRA also notes the improvement in operating profit margin to 13.2% in FY2021 against 5.5% in the previous fiscal. The margin improvement was on the back of inventory gains and better realisation following healthy demand and measures undertaken by the company, which increased the share of high margin products to its total revenues. While the operating profit margin is expected to moderate to an extent, it will remain healthy, going forward. The company has a comfortable capital structure with only short-term debt on its books. PPL has maintained a low gearing 0.1X as on March 31, 2021. The coverage indicators also stood healthy as reflected from interest coverage of 21.3X (3.2X in FY2020), NCA/total debt of 209% (51% in FY2020) and total debt/operating profit of 0.3X (0.9X in FY2020) in FY2021. The financial profile of the company is expected to remain healthy on the back of healthy demand from end-user industries, improving sales realisations and minimal reliance on debt.

Strong customer profile and geographical diversification of revenues – The company has a strong customer profile including large international FMCG companies, such as Dabur and Marico, and reputed players in the textile, ink and tyre sectors, while enjoying long-term relationships with several of its key clients. The company's customer profile remains well-diversified with its top five customers typically driving 25-30% of its total sales. Further, PPL's portfolio remains well-diversified across several industries, thereby mitigating the risks, to an extent, against demand slowdown in any particular sector. PPL's revenues are well-diversified in the domestic and overseas markets. Its exports typically account for 35-40% of its total standalone sales, which are distributed between Africa, East Asia, South America and Europe. The company also operates in West Asia through its subsidiary, Panol Industries RMC. Further, PPL has a diversified presence in India. A geographically diversified revenue base helps mitigate risks against slowdown in any particular market.

Manufacturing units strategically located to cater to different end-user industries – PPL has four manufacturing units in India that are strategically located to cater to specific industrial clusters. The company's facility in Taloja, Maharashtra, is located close to the port and is used for most of the company's exports. Further, it has a manufacturing unit at Ras Al Khaimah in the UAE, which has the advantage of being located close to the base oil suppliers in West Asia as well as to PPL's customers in the region. The company has also commenced supplying to southern India from its subsidiary to save logistics costs.

Credit challenges

Vulnerability of profits to forex fluctuations; sensitivity to base oil prices – Given the nature of the business, the company remains exposed to the movement in base oil prices, which remain volatile being crude oil derivatives. However, it can pass on any significant increase in base oil prices with the provision to set prices on a monthly basis. In case of exposure to forex fluctuations, the company's exports provide a natural hedge up to 35-40%. For the remaining exposure, it has an active hedging policy to hedge a part of its exposure through forward covers. PPL has faced a contraction in its operating margins in FY2020 owing to the slowdown in demand and intense competition for market share among different players.

High competition in the industry – The company's operations are exposed to high competition from other established players, few of whom have bigger scale of operations. ICRA notes low entry barriers and limited product differentiation have led to intense competition in the base oil processing industry. Companies mostly focus on volume, which leads to competitive pricing.

Moderately high working capital intensity – The company's net working capital intensity has remained in the range of 24-30% during the past three fiscals. The high working capital requirement is because of high inventories and receivables along with other current assets. However, the net working capital intensity is supported by high letter of credit backed creditors to an extent.

Liquidity position: Strong

PPL's liquidity is expected to remain **strong**, supported by healthy cash accruals and low utilisation of its working capital limits. Further, it has no long-term debt repayment obligations and the consolidated cash and bank balance stood at Rs. 74.8 crore (Rs. 41.50 crore, standalone). The company has moderate capacity expansion plans, which will be funded by internal accruals.

Rating sensitivities

Positive factors – Increase in scale of operations and improvement in profitability and cash accruals while maintaining moderate working capital intensity could be positive rating triggers.

Negative factors – Decline in scale of operations or in profitability, or any stretch in the working capital cycle, leading to increase in debt levels could be negative rating triggers. Interest coverage of less than 5.0 times could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial profile of Panama Petrochem Limited. As of March 31, 2021, PPL had a wholly-owned subsidiary, which is listed in Annexure-2.

About the company

Incorporated in 1982, Panama Petrochem Limited (PPL) is a manufacturer and exporter of over 80 variants of speciality petrochemicals. The company's key products include liquid paraffin oils (white oils), petroleum jelly, ink oil, rubber oil, coning oil, and transformer oil. The company has four manufacturing units in the country, one each at Ankleshwar (Gujarat), Dahej (Gujarat), Taloja (Maharashtra) and Daman. PPL's products are used across several industries, such as printing ink, cosmetics, pharmaceuticals, rubber, resin, engineering and chemicals. PPL also enjoys a manufacturing presence in West Asia through its wholly-owned subsidiary, Panol Industries RMC, FZE, at Ras Al Khaimah, the UAE. PPL has a consolidated manufacturing capacity of 240,000 metric tonne per annum (MTPA).

Key Financial Indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1002.8	1447.0
PAT (Rs. crore)	28.8	135.4
OPBDIT/OI (%)	5.5%	13.2%
PAT/OI (%)	2.9%	9.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8
Total Debt/OPBDIT (times)	0.9	0.3
Interest Coverage (times)	3.2	21.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					1-Oct-2021	29-Dec-2020	23-Dec-2019	-
1	Fund Based Limits	Long-term	6.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Non-fund Based Limits	Short-term	73.0	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based	Simple
Non-fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	6.0	[ICRA]A (Stable)
NA	Non-fund Based Limits	NA	NA	NA	73.0	[ICRA]A1

Source: *Company*

Annexure-2: List of Entities Considered for Consolidated Analysis

Company Name	Ownership	Consolidation Approach
Panol Industries RMC, FZE	100%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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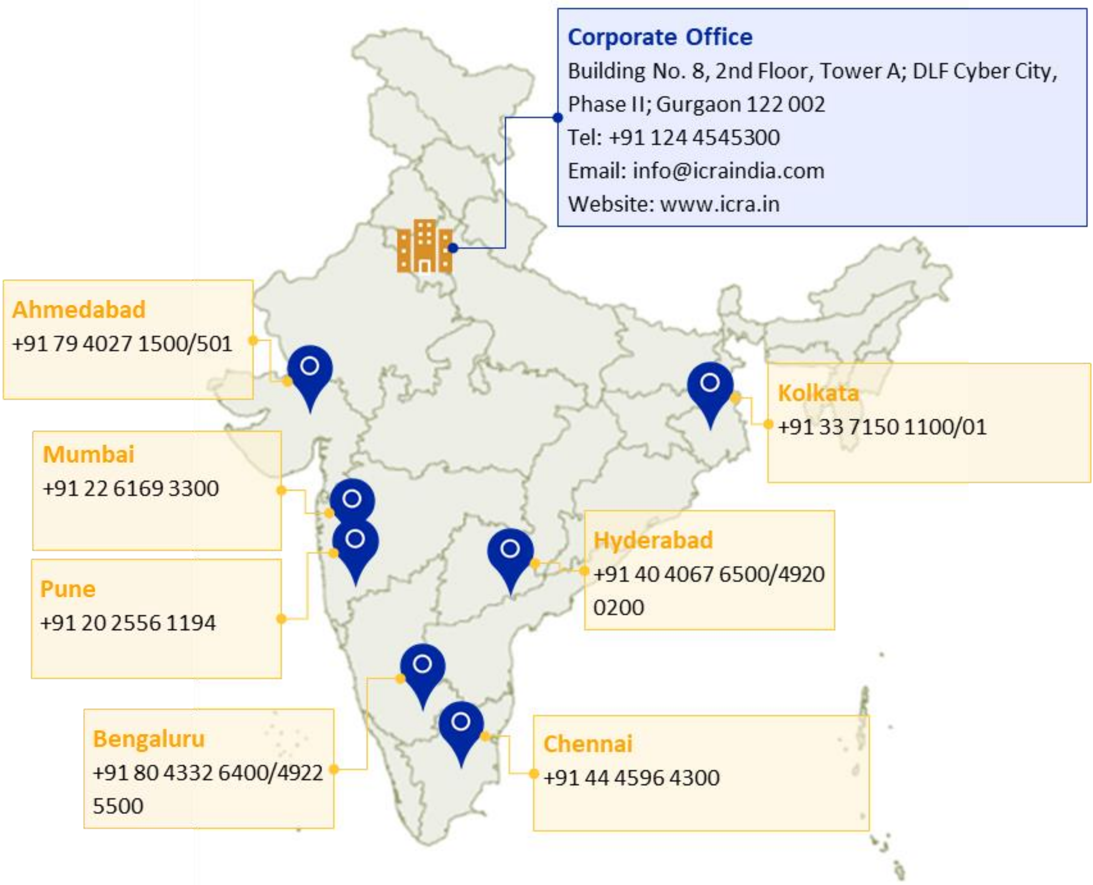

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