February 14, 2022

Panama Petrochem Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	6.00	6.00	[ICRA]A (Stable); reaffirmed
Non-Fund Based Limits	73.00	118.00	[ICRA]A1; reaffirmed/assigned for enhanced limits
Total	**79.00**	**124.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in Panama Petrochem Ltd's (PPL) healthy financial profile characterised by strong revenue growth in H1 FY2022 on the back of growing demand from end-user industries along with improved sales realisation, and its 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 capital expenditure (capex). PPL's operating profit margin also improved to 14.3% in H1 FY2022 compared with 13.2% in FY2021, due to the company's cost rationalisation measures, 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 pandemic also supported its revenue growth and profit margin. While ICRA expects some moderation in PPL's 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, mitigating the risks of a slowdown in a particular sector.

The ratings also favourably consider PPL's diverse manufacturing presence with four manufacturing units in India 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 PPL's revenues in both the domestic and overseas markets, with about 45% of its sales coming from exports. The geographical diversification helps mitigate the risks of a slowdown in any market.

The ratings are, however, constrained by the vulnerability of PPL's profitability to the fluctuations in forex rates and base-oil prices, which are inherently volatile being crude oil derivatives. The company's operations are also exposed to increased competition in the industry from other established and unorganised players. The company's net working capital intensity has remained moderately high; however, it has witnessed some moderation in the last three fiscals following the steps taken by the management to reduce its receivables.

The Stable outlook on the long-term rating reflects ICRA's opinion that PPL will continue to benefit from its established relationships with 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 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 used across multiple industries.
- **Healthy revenue growth and improvement in profit margin in H1 FY2022; capitalisation and coverage ratios remain comfortable:** At a consolidated level, PPL reported a healthy revenue growth of Rs. 1,114.7 crore in H1 FY2022, compared with Rs. 1,447.0 crore in FY2021 on the back of healthy sales volume and higher average sales realisations. ICRA also notes the improvement in the operating profit margin to 14.3% in H1 FY2022 against 13.2% in FY2021. The margin improvement was on the back of better realisation following healthy demand and measures taken by the company, which increased the share of high-margin products to its total revenues and inventory gains. 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 of 0.1x in H1 FY2022. The coverage indicators were also healthy reflected in the interest coverage of 38.9x (21.3x in FY2021), NCA/total debt of 457% (209% in FY2021) and total debt/operating profit of 0.2x (0.3x in FY2021) in H 1FY2022. The company's financial profile is expected to remain healthy on the back of healthy demand from end-user industries, improving sales realisations and minimal reliance on debt.
- **Reputed clientele 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, and has long-term relationships with several of its key clients. The company's customer profile remains well-diversified across several industries, mitigating the risks of a demand slowdown in any particular sector. PPL's revenues are well-diversified in the domestic and overseas markets. Its exports account for 40-45% of its total standalone sales distributed across 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 the risks against slowdown in any 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 at Taloja, Maharashtra, is located close to the port and is used for most of its exports. Further, it has a manufacturing unit at Ras Al Khaimah, the UAE, which has the advantage of being close to the base-oil suppliers in West Asia and PPL's customers in the region. The company has also started supplying to southern India from its subsidiary to save logistics costs.

Credit challenges

- **Vulnerability of profits to forex fluctuation; sensitivity to base oil prices:** Given the nature of the business, the company remains exposed to the movement in base oil prices, which remain inherently volatile being crude oil derivatives. However, it can pass on any significant increase in the base oil prices with the provision to set monthly prices. In the 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.
- **Increased competition in industry:** The company's operations are exposed to increased competition from other established players, few of whom have bigger scale of operations. ICRA notes that low entry barriers and limited product diversification 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:** PPL's net working capital intensity has remained in the range of 24-30% in the last 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, is has no long-term debt repayment obligations and the consolidated cash and bank balance was Rs. 44.86 crore (Rs. 28.38 crore, standalone) as on September 30, 2021. The company has capacity expansion plans of Rs 100 crore over a three-year period, which will be funded by internal accruals.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to increase its scale of operations, profitability and cash accruals while maintaining a moderate working capital intensity. Additionally, ROCE above 20% on a sustained basis could trigger a rating upgrade.

Negative factors – The ratings can be downgraded if the company's scale of operations or profitability declines with operating margins reaching below 5%. Any stretch in the working capital cycle that would increase the debt levels and moderate the debt coverage metrics on a consistent basis 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 on September 30, 2021, PPL had a wholly-owned subsidiary, which is listed in Annexure-2

About the company

Panama Petrochem Limited (PPL), incorporated in 1982, is a manufacturer and exporter of over 80 variants of specialty petrochemicals. The company's key products include liquid paraffin oil (white oil), petroleum jelly, and transformer oil. The company has four manufacturing units in the country - Ankleshwar (Gujarat), Dahej (Gujarat), Taloja (Maharashtra) and Daman. PPL's products are used across six to seven broad industry segments such as printing ink, cosmetics, pharmaceuticals, rubber, resin, engineering, and chemicals. The company also has manufacturing presence in West Asia through its wholly-owned subsidiary, Panol Industries RMC, FZE at Ras Al Khaimah, the UAE.

Key Financial Indicators (audited)

Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	1002.8	1447.0	1114.7
PAT (Rs. crore)	28.8	135.4	120.0
OPBDIT/OI (%)	5.5%	13.2%	14.2%
PAT/OI (%)	2.9%	9.4%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8	0.6
Total Debt/OPBDIT (times)	0.9	0.3	0.2
Interest Coverage (times)	3.2	21.3	38.9

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

Sr No.	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 14, 2022	Oct 01, 2021	Dec 29, 2020	Dec 23, 2019	-
1	Fund Based Limits	Long-term	6.00	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Non-Fund Limits	Short-term	118.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

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

ICRA has classified various instruments based on their complexity as "Simple", “Very Simple”, "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	6.00	[ICRA]A(Stable)
NA	Non-Fund Based Limits	NA	NA	NA	118.00	[ICRA]A1

Source: *Company;*

Please click here to view details of lender-wise facilities rated by ICRA

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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