

April 23, 2021

Mehta Petro Refineries Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short Term - Non Fund Based	80.00	75.00	[ICRA]A3; Reaffirmed
Fund-based sub-limits#	(70.00)	(70.00)	[ICRA]BBB-(Stable)/[ICRA]A3 Reaffirmed, outlook revised to Stable from Negative
Non-fund based sub-limits	(25.00)	(25.00)	[ICRA]BBB-(Stable)/[ICRA]A3 Reaffirmed, outlook revised to Stable from Negative
Long Term / Short Term - Unallocated	30.00	35.00	[ICRA]BBB-(Stable)/[ICRA]A3 Reaffirmed, outlook revised to Stable from Negative
Total	110.00	110.00	

*Instrument details are provided in Annexure-1; #Total utilisation of fund based sublimits should not exceed Rs. 45.00 crore

Rationale

The revision in outlook on Mehta Petro Refineries Limited's (MPRL) long-term rating to Stable considers the healthy improvement in sales in 9M FY2021, driven by favourable demand for its products post relaxation of Covid-19 pandemic-related lockdown. The ratings factor in the company's extensive track record in the solvent industry, benefitting from its established relationships with diversified customer base attributable to multiple product applications across multiple sectors. The ratings also note the comfortable capital structure and healthy revenue growth over the past three years, primarily driven by increase in sales volume.

However, the ratings remain constrained by the modest operating profitability as evident from operating margin of 4.1% in FY2020 and 4.5% in FY2019 due to the high raw material prices, currency fluctuations and stiff competition. The company is exposed to forex risk as it imports 45-50% of its raw material requirements. The currency fluctuation keeps its profitability under check, although the risk is partly mitigated by MPRL's forex hedging policies. Moreover, intense competition in the market from several domestic and international players limits its ability to pass on price fluctuation, which in turn restricts the company's margin flexibility. The ratings are also constrained by its moderate coverage indicators due to modest operating profitability.

The Stable outlook on the long-term rating reflects ICRA's belief that MPRL will benefit from the extensive experience of its management and established relationships with its customers in solvent industry.

Key rating drivers and their description

Credit strengths

Established track record in solvent industry – MPRL's key promoters Mr. Vinod Mehta and Mr. Paresh Mehta have an experience of more than three decades in the solvent industry. Over the years, the promoters have established relationships with various key intermediaries and end-customers to scale up business and secure repeat orders.

Ramp up of sales since relaxation of lockdown – The company reported sales of Rs. 267.7 crore in 9M FY2021 compared to Rs. 299.6 crore in FY2020, driven by healthy demand of its products post relaxation of lockdown. Further, the operating margin is likely to improve on the back of benefits from increasing scale.

Diversified product portfolio and established association with customers across various segments – MPRL's revenues are primarily derived from the domestic market, driven by the paint, printing ink, pesticides and insecticides sectors. These sectors account for ~90-95% of the total sales. Diversified product portfolio catering to several industries helps the company to adapt to the changing market conditions. This mitigates the sector-specific risks to a certain extent. Further, MPRL has a well-diversified clientele with its top five customers accounting for around 14-25% of the total sales during FY2018 to FY2020. Moreover, the established relationship with the customers results in repeat orders.

Comfortable capital structure – MPRL's debt profile primarily consisted of working capital loans and unsecured loans from promoters and related parties as on March 31, 2020 and December 31, 2020. The capital structure remained comfortable as indicated by a gearing of 0.8 times as on March 31, 2020.

Credit challenges

Modest operating profitability – The company's operating profitability continues to be low and further declined to 4.1% in FY2020 from 4.5% in FY2019 due to the high raw material prices, currency fluctuations amid stiff competition. Raw materials constitute 90% of the total value of MPRL's finished products. Thus, its ability to procure required raw materials at a competitive price is critical to maintain cost competitiveness, given that raw material prices vary directly with the movement of crude oil prices. Further, its reputed customer base and a highly fragmented industry structure, limits the company's bargaining power and ability to pass on price risks. Thus, MPRL's ability to consistently improve its operating efficiencies and remain cost competitive is critical.

Vulnerability to forex risk emanating from significant imports – The company is exposed to forex risk as it imports a sizeable portion of the key raw materials for its manufacturing. It procured 45-50% of its raw material requirements from the international market during the last three years based on the price differentials between domestic and international markets. Escalating import cost due to the rupee depreciation volatility continues to keep its profitability metrics under check, although the risk is partly mitigated by MPRL's forex hedging practice.

Moderate coverage indicators – The coverage indicators are moderate as indicated by interest coverage of 2.8 times and total debt/OPBDITA of 3.1 times in FY2020. The coverage indicators are likely to improve in FY2021 owing to the expected improvement in operating profitability from benefits arising from increase in scale of operations. However, the extent of the same remains to be seen and is a rating monitorable.

Intense competition with limited entry barriers in terms of technology and manufacturing operations – The low technological complexity and moderate capital investment in setting up a manufacturing plant for solvent products result in several smaller players setting up operations. Moreover, because of the low product differentiation, price competitiveness remains the key for maintaining and/or increasing its market share and building strong relationships with its end-customers. Stiff competition with the limited entry barriers restricts the margin.

Liquidity position: Adequate

MPRL had outstanding vehicle loan of Rs. 0.6 crore on its books as on March 31, 2020 and has not availed any external term loan in FY2021. Besides, absence of any major medium-term debt-funded capital expenditure would support the liquidity position. The average utilisation of working capital limits is moderate at 64% during the last 12 months that ended in January 2021. However, the average utilisation of limits increased to 73% during the past six-months period that ended in January 2021 with higher usage of non-fund based limits to import raw materials to support the increase in scale of operations. As a result, the cushion available in working capital limits has reduced with the company utilising Rs. 67.0 crore of the total sanctioned limits of Rs. 75 crore as on January 31, 2021. Going forward, MPRL's ability to get adequate enhancement in working capital limits to support the increase in scale in operations, in a timely manner, would be a key rating monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade MPRL’s ratings if the company demonstrates significant improvement in its scale of operations, along with improvement in profitability and liquidity position. Specific credit metrics that may lead to a change in the ratings include Total Debt/ OPBITDA below 2.5 times on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if lower capacity utilisation leads to significant contraction in the scale of operations and/or margins resulting in weak cash accruals. Moreover, any significant debt-funded capex or stretch in working capital cycle resulting in a stretch in the liquidity position will remain a negative trigger. Specific credit metrics that may lead to a downward pressure on the rating include OPBDITA/Interest and financial charges to below 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Chemical industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Incorporated in 1993, MPRL manufactures and markets solvents, which find application in the production of printing inks, paints, pesticides, and other products. The company is promoted and managed by Mr. Vinod Mehta, Mr. Paresh Mehta and their family. It has two manufacturing facilities one each at Palghar, Maharashtra, and at Dahej, Gujarat. The company’s total manufacturing capacity is ~430 KL per day with an aggregate storage capacity of ~5,300 KL.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	277.4	299.6
PAT (Rs. crore)	3.9	4.8
OPBDIT/OI (%)	4.5%	4.1%
PAT/OI (%)	1.4%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.8
Total Debt/OPBDIT (times)	3.5	3.1
Interest Coverage (times)	2.3	2.8

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

Note: Amount in Rs. crore; All calculations are as per ICRA research

Source: Company data, ICRA research

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	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
				Apr 23, 2021	May 21, 2020	Sep 5, 2019	Dec 14, 2018	May 16, 2018	
1 Non-fund Based Limits	Short-term	75.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3	
2 Fund Based Sub-limits	Long Term & Short Term	(70.00)	-	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	
3 Non-Fund Based Sub-limits	Long Term & Short Term	(25.00)	-	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	
4 Unallocated Limits	Long Term & Short Term	35.00	-	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	[ICRA]BBB-(Stable) / [ICRA]A3	
5 Fund Based Limits	Long Term & Short Term	-	-	-	-	-	-	[ICRA]BBB-(Stable) / [ICRA]A3	

Amount in Rs. crore; Amount drawn as on Dec 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit	NA	NA	NA	75.00	[ICRA]A3
NA	Fund Based – Cash Credit /WCDL/Sales Invoice discounting/Purchase invoice discounting/ Overdraft/ RCRL/ PCFC/PSFC (Sub-limit of LC)	NA	NA	NA	(70.00)	[ICRA]BBB-(Stable) / [ICRA]A3
NA	Non-fund Based – Bank Guarantee and stand by letter of credit (Sub-limit of LC)	NA	NA	NA	(25.00)	[ICRA]BBB- (Stable) / [ICRA]A3
NA	Unallocated Limits	NA	NA	NA	35.00	[ICRA]BBB- (Stable) / [ICRA]A3

Source: Company; ##Total utilisation of fund based sublimits should not exceed Rs. 45.00 crore

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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