March 05, 2024

Mehta Petro Refineries Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term non-fund based	148.75	148.75	[ICRA]A3+; reaffirmed
Long term/Short term interchangeable	(104.0)	(113.0)	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed, assigned for enhanced amount
Long term/Short-term unallocated	26.25	51.25	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed; assigned for enhanced amount
Total	**175.0**	**200.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the extensive track record of Mehta Petro Refineries Limited (MPRL) in the solvent industry, benefitting from its established relationship with a diversified customer base due to the multiple product applications across various sectors. The ratings also consider the company's healthy capital structure with gearing at 1.0 times as on March 31, 2023. The capital structure is likely to improve, going forward, with healthy accretion to reserves coupled with the limited incremental reliance on debt. The ratings note the healthy scale of operations, supported by the realisation and sales volume. However, in 9M FY2024, given the volatility in raw material prices (linked to crude prices), the company has reduced its exposure to traded goods sold, which usually have low margin, causing the revenues to dip to ~Rs. 472 crore.

The ratings are constrained by the moderate operating margins, reflected in OPM of 3.5% in 9M FY2024, down from 6.2% in FY2023 due to the high volatility in raw material prices and stiff competition. However, the overall profit and cash accruals are likely to improve sequentially in the near to medium term because of a change in the revenue mix to include more high margin manufactured products, lower trading volumes and moderation in raw material price volatility. The company remains exposed to currency fluctuations as imports constitute a significant percentage of the raw material purchase, although the risk is mitigated by MPRL's forex hedging policies. Moreover, intense competition in the market from several domestic and international players limits its ability to fully pass on the price fluctuation.

The Stable outlook on the long-term rating reflects ICRA's expectation that MPRL would maintain its debt protection metrics, commensurate with the existing rating, even as its operating profit might moderate.

Key rating drivers and their description

Credit strengths

Established track record in solvent industry– Mr. Vinod Mehta and Mr. Paresh Mehta are MPRL's key promoters and have an experience of more than three decades in the sector. Over the years, the promoters have established relationships with various key intermediaries and end-customers to scale up the business. Their extensive experience will guide the company's future growth.

Diversified product portfolio and established association with customers across various segments – MPRL's revenues are primarily derived from the domestic market, such as the paint, printing ink, pesticide and insecticide sectors. These sectors account for ~80% of the total operating income. The diversified product portfolio catering to several industries helps the company adapt to changing market conditions. This mitigates the sector-specific risks to a certain extent. Further, MPRL has a well-diversified clientele. Moreover, its established relationship with customers ensures repeat orders.

Healthy capital structure – The company's capital structure is healthy with gearing at 1.0 times as on March 31, 2023. The capital structure is likely to improve, going forward, with healthy accretion to reserves coupled with limited incremental reliance on debt, given the similar scale of operations and working capital intensity.

Further, despite the near-term moderation in coverage indicators due to subdued operating profit, they are likely to improve in the medium term. The operating profitability is expected to improve with a change in the revenue mix to include more high margin manufactured products, lower trading volumes and moderation in volatility of raw materials, thereby supporting the overall cash accruals.

Credit challenges

Moderate operating profitability – The company's operating profitability remains moderate, reflected in OPM of 3.5% in 9M FY2024, which moderated from 6.2% in FY2023 due to high volatility in raw material prices and stiff competition. Raw materials constitute ~ 90% of the total value of MPRL's finished products. Thus, its ability to procure the required raw materials at a competitive price is critical to maintain the cost competitiveness, given that raw material prices vary with the movement in crude oil prices. Further, its reputed customer base and a highly fragmented industry structure limit the company's bargaining power and ability to pass on the price risks. However, the overall profit and cash accruals are likely to sequentially improve in the near to medium term.

Vulnerability to forex risk from imports – The company is exposed to forex risks as it imports a sizeable portion of the key raw materials. It procured 30-40% of its raw material requirements from the international market in the last two years based on the price differential between the domestic and overseas markets. Escalating import cost due to the rupee's depreciation continues to keep its profitability metrics under check, although the risk is mitigated by MPRL's forex hedging practices.

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

Liquidity position: Adequate

MPRL's liquidity position is expected to remain adequate, supported by healthy cash flows. The average utilisation of its working capital limits over the last 12 months ended January 2024 was around 76%. Further, with no major debt repayment obligations and limited capital expenditure requirements over the next 12 months, the overall liquidity position is likely to be adequate.

Rating sensitivities

Positive factors – ICRA may upgrade MPRL's ratings if the company exhibits a sustained improvement in its profitability while maintaining healthy revenues and an adequate liquidity position.

Negative factors – The ratings may be downgraded if there is a significant contraction in the scale of operations and/or moderation in margins, resulting in weak cash accruals and impacting the liquidity position. A specific credit metric that may put pressure on the ratings includes TOL/TNW above 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MPRL

About the company

MPRL, incorporated in 1993, manufactures and markets solvents, which find application in the production of printing ink, paints, pesticides and other products. The company is promoted and managed by Mr. Vinod Mehta, Mr. Paresh Mehta and their families. It has two manufacturing facilities - at Palghar (Maharashtra) and Dahej (Gujarat). The company's total manufacturing capacity is ~70,000 KL per annum with an aggregate storage capacity of ~5,300 KL.

Key financial indicators

	FY2022	FY2023
Operating income	907.4	739.0
PAT	24.0	26.8
OPBDIT/OI	4.3%	6.2%
PAT/OI	2.6%	3.6%
Total outside liabilities/Tangible net worth (times)	2.1	1.7
Total debt/OPBDIT (times)	2.3	2.5
Interest coverage (times)	7.3	5.4

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					March 5, 2024	Dec 23, 2022	May 30, 2022	Apr 23, 2021	May 21, 2020
1	**Non-fund based limits**	Short term	148.75	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**	**[ICRA]A3**	**[ICRA]A3**
2	**Interchangeable limits**	Long-term /Short term	(113.00)	-	**[ICRA]BBB(Stable)/ [ICRA]A3+**	**[ICRA]BBB(Stable)/ [ICRA]A3+**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable) / [ICRA]A3**	**[ICRA]BBB- (Negative) / [ICRA]A3**
3	**Unallocated**	Long-term	51.25		**[ICRA]BBB(Stable)/ [ICRA]A3+**	**[ICRA]BBB(Stable)/ [ICRA]A3+**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable) / [ICRA]A3**	**[ICRA]BBB- (Negative) / [ICRA]A3**

	/Short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based limits	Very Simple
Interchangeable limits	Simple
Unallocated	Not applicable

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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-fund based facilities**	NA	NA	NA	148.75	[ICRA]A3+
NA	**Interchangeable limits**	NA	NA	NA	(113.00) #	[ICRA]BBB(Stable)/[ICRA]A3+
NA	**Unallocated limits**	NA	NA	NA	51.25	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company; #Total utilisation of fund based interchangeable sublimits should not exceed Rs. 113 crore

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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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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